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Продовольственная и
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Organización de las
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منظمة
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FINANCE COMMITTEE

Hundred and Sixty-sixth Session

Rome, 27 - 31 March 2017

2016 Annual Report of the Inspector General

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EXECUTIVE SUMMARY AND DIRECTOR-GENERAL'S COMMENTS

➢ The Inspector-General is pleased to provide the Finance Committee with the 2016 Annual Report of the Office of the Inspector-General (OIG) as provided to the Director-General. The report contains information on the audit, investigative and inspection work of the Office in 2016 as well as its internal management.

➢ OIG's audit activity is based on a rolling plan aimed at ensuring that all high risks of the Organization, as captured in an OIG corporate risk register, are independently reviewed over a three biennia cycle under OIG's current resourcing, taking into account the oversight coverage of the Office of Evaluation and the External Auditor. In 2016 coverage included a review of the implementation of the FAO Strategic Framework at the Decentralized Offices.

➢ The annual report provides detailed information on the results of OIG's audits and investigation work during 2016.These are in line with OIG's findings for the previous year. OIG recognizes positive measures undertaken in 2016 as part of FAO's ongoing transformation to a significantly stronger results-oriented, risk conscious and accountable Organization. At the same time OIG's coverage in 2016 indicates that there remain important challenges in a number of areas that are essential for the Organization's transformation to be sustained and greater efficiencies achieved.

Director-General's Comments

➢ The Director-General appreciates the audit, investigation and inspection work and policy advice of OIG, which has supported the management and governance of the Organization. The senior managers of the Organization are accountable for ensuring appropriate implementation of agreed OIG recommendations, which is subject to periodic review during the year as well as at year-end. These include the recommendations in the important areas covered by OIG in 2016. In this regard, it is noted that further to resolution by the Senior Management Meeting of January 2017, a concerted corporate exercise has been undertaken to address outstanding critical recommendations. Pursuant to the Finance Committee's request at its 148th session, management's status reporting on actions taken to address long outstanding high-risk recommendations has, for ease of reference, been added to Annex E of the Inspector-General's annual report. This can be supplemented by further update by management representatives at the Finance Committee's 166th session, and the status of recommendations will be monitored in the OIG periodic activity reports to the Director-General.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

➢ The Finance Committee is invited to take note of the Inspector-General's Annual Report for 2016.

Draft Advice

The Finance Committee:

➢ **appreciated the quality of the report and the analysis of issues presented, which covered the full range of responsibilities under the mandate of the Office of the Inspector General, noting that the work of the Office of the Inspector General presented was very relevant and a useful tool for the management and governance of the Organization;**

➢ **welcomed and encouraged the good cooperation and convergence of views on internal control issues, between the Office of the Inspector General and management, and efforts to promote implementation of control improvements through agreed actions whose implementation are subject to regular follow up;**

➢ **noted FAO's systems of action on adverse findings from OIG investigations; and**

➢ **welcomed the positive response of the Director-General to the report.**

Office of the Inspector General

Annual Report

2016

Highlights

This report presents a summary of the activities carried out by the Office of the Inspector General (OIG) of the Food and Agriculture Organization (FAO) in 2016.

OIG provides oversight of the Organization's programmes and operations, through internal audit, investigation and related activities, in accordance with the mandate set out in its Charter.

Since 2010, OIG's audit activity has been based on a rolling plan aimed at ensuring that all the Organization's high risks, as captured in an OIG risk register, are independently reviewed over a defined cycle, currently three biennia, taking into account the oversight coverage of the Office of Evaluation and the External Auditor. While OIG will endeavour to keep this three biennia cycle, constraints on resources may affect this objective.

Key corporate areas for formal audit review completed in 2016 included: Treasury and Investment management, Technical Support Services, Fraud Risk Management, Fixed Assets Management, Management of Staff Entitlements, Resource Mobilization, Medical Unit and Information Products and Promotional Development (IPPD) contracts. As in previous years, a significant portion of OIG's activity focused on field and emergency operations due to the significant risk exposure to the Organization, through cyclical reviews of the Organization's Decentralized Office Network. In 2016, a special thematic emphasis was on the implementation of the FAO Strategic Framework at the Decentralized Offices. In addition, Capping Reports on Governance, Accountability and Internal Control as well as Programme and Operations of the Decentralized Office Network were prepared to raise corporate level issues. Some other audits in the 2016 workplan were completed in early 2017.

In 2016, OIG issued 31 individual audit and three inspection reports to operating units throughout the Organization. In addition, OIG issued three audit memoranda on various issues for the attention of management. The audit reports provided management with 306 agreed actions/recommendations (five of which were included in audit memoranda), and 166 compliance issues to strengthen the Organization's risk management, internal controls and governance processes, from which there was a greater than 98 per cent acceptance rate by management.

OIG closed a total of 99 matters (91 cases and eight consultations) following examination by its Investigations Unit and issued a total of ten investigation reports and 11 investigation memoranda. OIG continues to work with management to strengthen elements of the Organization's integrity framework.

The annual report provides further information on the results of OIG's audit and investigation work during 2016. OIG recognizes positive measures undertaken in 2016 as part of FAO's ongoing transformation initiatives to support a significantly stronger results-oriented, risk conscious and accountable Organization. Further improvements to FAO's integrity framework were made and management has been responsive to the results of investigations carried out in relation to staff and third party misconduct.

At the same time, OIG's audit coverage in 2016 indicates that there remain important challenges in a number of areas that are essential for the Organization's transformation to be sustained and greater efficiencies achieved (summarized in the FAO risk exposure and trends paragraph 10).

As at December 2016, OIG had six vacant professional posts (four internal auditor and two P3 investigator posts). Two were filled in early 2017 and actions to fill the others were underway.

OIG would like to express its appreciation to all levels of FAO staff and management contacted in the course of its work, for their support and positive responses, cooperation and assistance throughout the year, despite their own challenging responsibilities and workload.

Office of the Inspector General

Annual Report

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Annex

Introduction

1.   This report to the Director-General provides a summary of the oversight activities of the Office of the Inspector General (OIG) during 2016. In accordance with the Organization's oversight arrangements, this report is also made available to the External Auditor, FAO Audit Committee and the Finance Committee, and thereafter is also made publicly available through the Organization's website.

Mandate and Mission

2.   OIG has responsibility for internal audit, which includes monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal controls, risk management, financial management and use of assets. OIG is also responsible for investigating allegations of misconduct by FAO personnel, implementing partners and vendors in the context of FAO programmes and for conducting independent reviews under the grievance mechanism of FAO's Environmental and Social Safeguards Policy. OIG draws on its audit and investigation expertise to conduct fact-finding inspections of specific events or activities, to support senior management decision-making. OIG's Charter is incorporated as Appendix A to FAO Administrative Manual Section (MS) 107.

3.   Together with FAO's Office of Evaluation (OED), OIG provides comprehensive internal oversight coverage for the Organization. The External Auditor, with whom OIG cooperates, provides complementary external oversight.

4.   OIG provides the Director-General and the Organization's functions and programmes with analyses, recommendations, counsel and information concerning the activities reviewed. In so doing, it seeks to identify opportunities for improving the efficiency and economy of operations while promoting control at reasonable cost. OIG also promotes initiatives to strengthen the integrity of FAO's operations and to ensure a robust response when instances of fraudulent or other corrupt practices are detected.

5.   OIG's vision is to serve FAO by delivering on its mandate with professional independence, integrity, quality and efficiency.

6.   With respect to its internal audit work, OIG follows the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors, a global professional body. With respect to its investigative work, OIG follows the FAO Guidelines for Internal Administrative Investigations, which are based on the Uniform Guidelines for Investigation, promulgated by the Conference of International Investigators of the UN System and Multilateral Financial Institutions. Both sets of standards have been adopted by the audit and investigation services across the UN System.

7.   The Director-General and the Inspector General receive independent advice on the effectiveness, including the adequacy and quality, of the internal audit and investigative functions of OIG from an Audit Committee comprising senior audit and/or investigation professionals, who are fully external to the Organization. The Terms of Reference of this Committee are incorporated as Appendix C to MS 146.

Statement of Independence

8.   During 2016, OIG undertook its professional activities independently within the Organization. OIG consults with management when planning audits, inspection, investigations or related activities. As a result of these consultations, there were no impairments to its independence.

Discretionary Reports to the Finance Committee

9.   OIG's Charter states that, at the discretion of the Inspector General, any audit report or any other issue may be submitted to the Finance Committee together with the Director-General's comments thereon and be made available to other interested member states. No such reports, additional to the annual report, were submitted in 2016.

FAO Risk Exposure and Trends

10.   During 2016, FAO advanced its implementation of transformational changes aimed at further institutional strengthening and enhanced delivery and impact of programmes, incorporating lessons from 2015. OIG notes positive results as well as challenges from its work in 2016, highlights of which are noted below:

11.   Further progress in achieving greater focus and results orientation in the programmatic work of the Organization: In a review reported in early 2016, OIG identified positive elements but also some challenges in which the Office of Strategy, Planning and Resources Management (OSP) and Senior Management needed to keep focusing their attention, including clarifying the roles and responsibilities for the monitoring and reporting functions, the role of Delivery Managers for Regional Initiatives and finalizing the workforce planning exercise that was launched as part of the operational work planning phase. The Organization has subsequently implemented further significant changes to promote the delivery of the Strategic Objectives (SO), especially the establishment of a new Deputy Director-General for programmes (DDP) encompassing the existing Strategic Programme teams, Technical Cooperation Department, Partnerships, Advocacy and Capacity Development Division, Liaison Offices, and the new Office of Chief Statistician, as endorsed by the 155th session of the Council. Moreover, learning from the experience during the first biennium of implementation of the new Strategic Framework, OSP has focused on improving the integration of Decentralized Offices in the SO's work planning phase, and alignment of the Results Framework with Country Programming Frameworks and field operations. OIG will continue to review developments during 2017.

12.   Fraud Risk management: OIG finalized a high-level review of risks of financial fraud and other corrupt practices in FAO and mitigating actions taken. While there is no way to prevent fraud completely, there are ways to minimize the risks and increase the chances of detection. It is only through diligent and ongoing efforts that an organization can protect itself against significant acts of fraud. OIG concluded that FAO's approach to fraud risk management is fragmentary. In the absence of strong "second line of defence" monitoring within FAO, OIG cannot presently form a view on the overall effectiveness of existing controls. OIG believes that priority should be assigned to ensure that a comprehensive Enterprise risk management (ERM) programme in the Organization is finalized, which includes a robust anti-fraud element. The implementation of the recently approved Internal Control Framework will be an opportunity to emphasize the importance of strengthening second line of defence functions in the Organization. OIG will revisit the topic in the next biennium.

13.   FAO's Treasury function: Significant risk exposures exist in relation to Foreign Exchange (FX) Management, Counterparty risk (i.e. the risk that the other party in an agreement may default, failing to meet its obligations), Imprest Bank Account Replenishment (i.e. the risk that excess funds may be provided leading to unnecessary exposure to country, counterparty and FX risks) and monitoring of operations. In addition, the overall control environment in CSF needs to be strengthened through better documentation of procedures, guidelines, roles and responsibilities. OIG worked with CSF management during Q2 to develop an action plan to address the identified shortcomings.

14.   Investment Management: The audit concluded that FAO has established a solid framework to manage its USD 1.4 billion investments. In particular, the existing governance mechanisms consisting of the internal Investment Committee, the external Advisory Committee on Investments, and annual review by the Finance Committee, provide for robust oversight of investments at FAO. However, the review also found areas where improvement is urgently needed. In particular, there are no documented

procedures and/or methodologies in place to regulate specific activities, such as: selection and management of external managers and advisors, monitoring of the external managers, due diligence of the external managers and compliance visits. The review also found that external investment managers were not selected in accordance with FAO's procurement procedures and these contracts therefore must be regularized. In addition, the audit revealed a lack of adequate segregation of duties in the payment process of the external investment managers. OIG is pleased to note that CSF has already started to take action to resolve the weaknesses identified.

15.   Resource Mobilization (RM): An audit of the RM function found that RM was meeting its targets. Governance arrangements, risk management practices and internal controls established by Senior Management were adequately designed and functioning as planned. However, there are three main areas that require management's attention and on which TC has agreed to take action:

- improving accountability of all stakeholders for delivery of agreed targets;
- developing and using regional and global RM planning tools in strategic target setting; and
- bridging capacity gaps at the Decentralized Offices level.

16.   Asset Management: The audit identified several control weaknesses, leading to the conclusion that substantial work is needed to manage FAO assets effectively. Issues exist across the various asset management processes, both in the design and operating effectiveness of key controls. In OIG's view, management should give priority to the following:

- to formalize work arrangements for Asset Management
- to improve controls in the asset additions process
- to review expenses to identify and correct recording errors
- to modify the Country Office Information Network (COIN)'s assets disposal module to strengthen controls
- to research, propose and implement an asset tagging system
- to clarify the roles and responsibilities for the transition in ownership of IT assets at headquarters.

17.   Programme and Operations (P&O) Issues in Country Offices (COs) The Organization has gone through extensive decentralization and reorganization in recent years to enhance the impact of FAO's work through results, particularly at the country level. This is set in motion by a common results framework, with a number of shared outputs and outcomes that all COs contribute to. Other key developments in the organizational set-up and re-alignment include the revised Strategic Framework, enhanced management information systems (in particular GRMS, iMIS and FPMIS) and new governance and management arrangements and tools, such as the iMIS Results Dashboard, the Accountability Policy, the Risk Management Policy and the Internal Control Framework. Key guidance has been updated, including the Project Cycle and CPF manuals.

18.   Overall, the P&O audits found Satisfactory ratings for 59 percent of the audit control criteria on Liaison, Communications and Country Programming (Audit Area A), and 61 percent on Programme Management and Field Programme Operations (Audit Area B). OIG also identified a number of common weaknesses in COs which were raised to the corporate level in the Capping Report. In Audit Area A, two areas required particular corporate attention: (i) liaison and advocacy, and (ii) CPF feasibility and resource mobilization. The establishment of measurable and agreed performance indicators for the FAO Representatives (FAORs), and a strengthened and meaningful quality assurance process by Regional Offices (ROs) and headquarters units would provide leverage for senior management to strengthen controls in this regard. As regards Audit Area B, COs did not perform well in areas such as operations monitoring and reporting. OIG found that many control deficiencies identified ultimately relate to weaknesses in accountability and internal control.

19.   Governance, Accountability and Internal Control System (G&A) Issues in Country Offices - Systemic and overarching issues identified include:

- establishment of measurable and agreed objectives for COs and FAORs to enable results-focused performance management;
- alignment of CO structures and resources with field programme requirements; including the establishment of key functions such as monitoring and evaluation, resource mobilization and communications, where necessary;
- commensurate and frontloaded funding of COs, in particular for those that are emerging or restructuring their field programmes;
- arrangements and requirements to regularly assess, report and escalate risks;
- attitude towards the control environment and awareness about the substance of controls;
- distribution of tasks and workload, and segregation of duties at the COs, under different staffing scenarios; and
- accuracy and completeness of data inserted into the Organization's Management Information Systems.

20.   FAO management is aware of the above deficiencies at the CO level and there are several pertinent ongoing Agreed Actions from prior P&O and F&A Capping Reports which are key to addressing them.

21.   Technical Support Services (TSS): Due to lack of ownership of the underlying financial features of TSS, there is no consensus on the identification of TSS earnings among stakeholders. There are different views on whether to measure TSS earnings on an annual, biennial or other cyclical basis and, consequently, there is no agreement on how the TSS recovery rate should be calculated. Standardizing the methodology for calculating recovery rates would ensure information generated is consistent and useful for planning and monitoring the application of TSS resources in assuring the technical quality of the Organization's activities. TC and OSP will have lead roles in coordinating the required actions.

Implementing the Risk-Based Audit Plan

Planning approach

22.   OIG follows a risk-based planning approach to identify and select its activities to review. Risks are identified and grouped in potential auditable entities (which are usually a process, function or location) representing different dimensions of how FAO implements its programmes and operations and manages related risks. This approach provides a more systematic basis for prioritizing internal audit work. The aim is to ensure that management of all the Organization's major risk entities is collectively (and independently reviewed) with FAO's Office of Evaluation and External Auditor within a defined cycle. In some cases risks are covered annually, in others over one or more biennia, with a target of completion of coverage of corporate high risks over three biennia. Given the dynamic nature of risks facing the Organization, OIG essentially maintains a rolling plan of coverage updated on an annual basis and more fully each biennium. Through its coverage of those risks not reviewed by the other oversight functions, OIG provides assurance over the implementation of risk management measures and advice on how these measures can be improved.

23.   In 2016, OIG's internal audit work aimed at completing the coverage proposed in its 2016-2017 risk-based audit plan (RBAP). This was developed at the beginning of the biennium taking into account inputs from management and the FAO Audit Committee, and thereafter endorsed by the Director-General. Priorities within the plan were re-assessed regularly in 2016 and adjusted where necessary. The plan is based on a risk register, originally developed in 2009 in partnership with Deloitte and with input from management, and regularly updated since, to reflect emerging risks and changing risk priorities. In the course of updates, the ranking of some risks may be increased or

decreased and some risks dropped or added based on emerging risks, action taken by management and new information. Implementation of the RBAP is monitored through periodic activity reports to the Director-General, and by the Audit Committee, which meets three times each year. In addition, the achievement of the planned coverage of risks continues to be a key performance indicator for OIG.

24.   As of 31 December 2016, the updated risk register identified 59 high risk entities, of which three are covered by the Office of Evaluation. For the remaining 56 entities, 35 were included under planned audit assignments in the 2016-2017 RBAP. These 35 entities included eight which are covered on an annual basis (recurrent risks). Some of the remaining 21 entities were covered by OIG in 2014-2015 and the rest will be considered for inclusion in OIG's next planning cycle, together with those entities that were planned but remain uncovered in 2016-2017 (see 'Plan implementation' below).

25.   As the Organization's risk management under the ERM project matures, OIG will modify its approach, using the results of risk self-assessments undertaken by management, as well as its own professional analysis, to adjust and develop its future RBAPs.

Plan implementation

26.   At the end of 2016, OIG had completed assignments that covered 15 of the 35 high-risk entities originally included in the 2016-2017 RBAP, while assignments still in progress at the end of 2016 covered four additional high-risk entities (Global Environment Fund, statistics, procurement and technical specifications). Reviews of two other entities planned in 2016 were carried over to 2017 (staff recruitment and Sustainable Development Goals) whereas a planned review of IT governance and IT strategy, which addressed four additional high-risk entities, has been cancelled in agreement with CIO management in view of significant developments and progress in this area.

27.   OIG continued to devote substantial resources to review field activities in the areas of (i) governance, accountability and internal control systems, (ii) programme and operations, and (iii) finance and administration. OIG activities included audit missions to 18 Decentralized Offices during 2016. As a subsidiary coverage goal, OIG aims to review all significant Decentralized Offices at least once every three biennia, with larger offices and those with unsatisfactory prior audit results reviewed more frequently. At present OIG is on track to fulfil this goal for the three biennia 2012-2017 (see Annex B). This may prove more difficult in the future should risks increase and OIG resources remain stable.

28.   OIG issued 31 audit reports in 2016, 19 of which relate to Decentralized Office audits (five of these related to missions completed in 2015 and 14 for missions completed in 2016) (see Annex C).

29.   These reports provided management with assurance and advice. Summaries of results from audit reports issued in 2016 are provided in Annex D.

30.   During 2016, OIG implemented a new approach to replace audit recommendations with agreed actions, to build into the reporting process greater management ownership of the results. The reports issued in 2016 contained 306 recommendations or agreed actions at various levels to strengthen the Organization's risk management, internal controls and governance processes. The 19 Decentralized Office reports also raised 166 compliance points that managers in the field offices needed to address.

Gender Mainstreaming

31.   Gender mainstreaming (GM) is a permanent element of OIG's annual audit workplans. In 2016, all OIG reviews of Decentralized Offices continued to assess progress towards mainstreaming gender. In addition, a more in-depth assessment of gender mainstreaming in the Representation's strategy and field programme was performed as part of the comprehensive reviews of Senegal, Jordan,
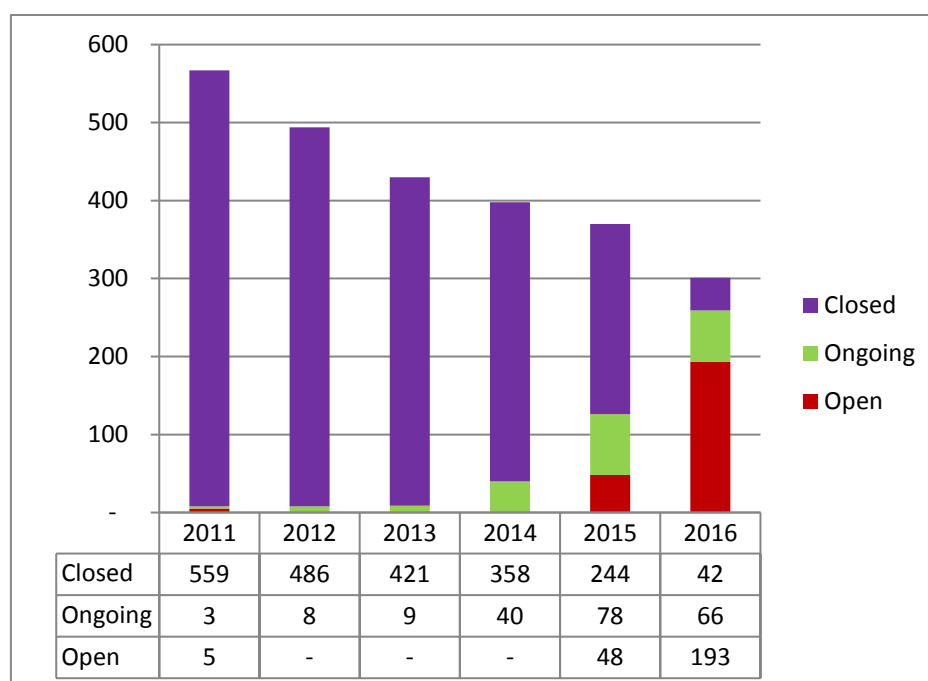
Madagascar, Yemen and Nepal Country Offices, as well as in the Subregional Offices for Central Asia (SEC) and for the Pacific Islands (SAP). Some of the main findings from these reviews were:

- Some CPFs lack gender performance indicators reflecting the lack of integration of gender in government policy at the date the CPF was formulated.
- A GM strategy is not always in place even if GM may be mentioned in the CPF. The risk is that, without a strategy, GM interventions may not be consistent and coordinated, thus, the overall impact may be less effective.
- In some countries, FAO local staff continue to be unfamiliar with GM concepts and therefore GM is not sufficiently reflected in field programmes.
- Technical capacity and resources for GM remains an issue in several countries. Lack of ToRs for local Gender Focal Points (GFPs), lack of time available to GFPs for GM work as well as lack of training and capacity assessments are obstacles to effective GM.

Audit Recommendations/Agreed Actions and Resolution

32.   As Figure 1 below illustrates, as at 17 February 2017, management had reported closure of 14 percent of the 2016 recommendations/agreed actions and initiation of action to address a further 22 percent. Management continued its efforts to implement all remaining recommendations issued prior to 2016, having closed 66 percent of those made in 2015, 90 percent of all recommendations made in 2014[1], and more than 98 percent of those made prior to 2013. Seventy recommendations issued in 2014 or before remain open for implementation. The information is based on auditee reporting, in some cases subject to OIG verification at the time, but often during a later audit of the unit/function.

Figure 1 - Status of implementation of all recommendations for 2011-2016 (as reported by management at 17 February 2017)

	2011	2012	2013	2014	2015	2016
Closed	559	486	421	358	244	42
Ongoing	3	8	9	40	78	66
Open	5	-	-	-	48	193

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[1] For OIG's performance indicator (10.2.A) as reported in the Organization's Medium Term Report implementation of recommendations relates to reports issued up to two years prior to the reporting date. The result as at September of 2016 is therefore 90 percent, against a target of 93 percent.

33.   Figure 2 below illustrates recommendation/agreed action closure rates for 2016, which represent actual implementation of recommendations compared to closure rates for 2008-2016.

Figure 2 - Recommendation Closure Rates

	As of 31/12/16	As of 31/12/15	As of 31/12/14	As of 31/12/13	As of 31/12/12	As of 31/12/11
2008	99%	99%	99%	98%	98%	92%
2009	100%	99%	99%	97%	92%	88%
2010	100%	99%	100%	99%	96%	86%
2011	99%	96%	97%	94%	82%	64%
2012	98%	92%	89%	68%	39%	
2013	98%	92%	83%	43%		
2014	90%	62%	33%			
2015	66%	15%				
2016	14%					

34.   In order to better assist management in developing an effective recommendation/agreed action implementation strategy, OIG classifies these into three risk categories - High, Medium and Low, based on the impact and probability of occurrence of the underlying risks. OIG developed the following definitions by risk category:

High	Failure to implement the recommendation will most likely lead to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the Organization's mandate, operations, or reputation. The action is critical to the system of internal control and should be implemented immediately.
Medium	Failure to implement the recommendation will most likely lead to the occurrence or recurrence of an identified risk event that would have a significant impact on the department/entity's mandate, operations, or reputation. The action has a significant effect on the system of internal control.
Low	The recommendation is important to maintain a reasonable system of internal control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve business entity objectives effectively and efficiently.

35.   As more than 73 percent of recommendations are generated from audits at the field or business entity level, a high proportion are rated as Medium and Low risk. However, at the business

entity level these recommendations are very important to improve the system of controls and improve operational efficiencies.

36. As Figure 3 below illustrates, of the 455 outstanding recommendations made over the period 2008-2016, 32 are rated high risk. These 32 high risk recommendations comprise 21 that were made in 2016, six in 2015, and five prior to that time.

Figure 3 - Outstanding Recommendations by process 2008-2016

Process Involved	High	Medium	Low	Total
Governance, Accountability and Management Controls	13	88	22	123
Human Resources		30	32	62
Finance & Banking	8	25	20	53
Operations	3	30	6	39
Procurement		19	19	38
Assets Management	2	26	8	36
Strategy and Planning	5	25	3	33
Information Systems		27	5	32
Advocacy, Liaison and Communications	1	14	8	23
Travel		6	3	9
Gender equality		4		4
Security		2		2
Legal		1		1
Grand Total	32	297	126	455

37. Of the 455 outstanding recommendations, 70 were made prior to 2014 and are thus classified as long-outstanding and therefore subject to more intense follow-up steps. Figure 4 summarizes the results by risk category.

Figure 4 – Long Outstanding Recommendations by Risk Category

Year	High	Medium	Low	Total
2008		2		2
2009		1		1
2010	1		1	2
2011		7	1	8
2012	1	4	3	8
2013	2	5	2	9
2014	1	21	18	40
Total	5	40	25	70
in %	7%	57%	36%	100%

38.   The five high risk recommendations made prior to 2014 relate to:

- finalizing and beginning implementation of an Organization-wide business continuity management framework;
- establishing a framework for policy monitoring responsibilities within the different units of the operations arm, including procurement activities;
- arranging an effective governance of GRMS support across the Business Units;
- addressing the issues identified in the review of headquarters infrastructure management; including periodic reporting on headquarters premises safety to the Governing Bodies; and
- developing a proposal for a Capital Renovation Plan of the compound.

      More information is provided in Annex E.

39.   Although management has made some progress in addressing these recommendations, as indicated in Annex E, the actions are not yet sufficient to close them. OIG regularly follows up with management on the implementation of these recommendations throughout the year, which are then reported in OIG's quarterly reports to the Director-General.

40.   In 2014-2016, with a view to improving the rate of internal audit recommendation/agreed actions, the Director-General emphasized Senior Management accountability at Assistant Director-General (ADG) level, and a network of audit focal points in each department was established to follow up with relevant managers to promote timely implementation, support verification and reporting to OIG. To support timely reporting, OIG made a web-based access to its recommendation/agreed action data base available to allow managers and focal points to directly update status information. In response to a recommendation of the FAO Audit Committee in 2016, OIG is to implement a new escalation policy whereby reminders and alerts will be sent to ADGs and departmental focal points, and to the DDGs as appropriate, on recommendations/agreed actions approaching and passing overdue status respectively. The monitoring of implementation deadlines will also be refined and thereby tightened by being linked to agreed dates of recommendation rather than year of report issue.

Investigating Fraud and Other Misconduct

41.   OIG is responsible for promoting an environment of integrity throughout the Organization's operations through the detection and investigation of allegations or indications of fraud and other forms of misconduct by FAO personnel, partners or by contractors in relation to their business with FAO, and for the promotion of preventive measures. Investigation results are captured in order to develop lessons learned and to recommend procedural and policy changes that enhance integrity within FAO. OIG provides advisory services on integrity-related matters and also conducts other fact finding inspections requiring legal or investigative expertise.

Investigation Process

42.   OIG's mandate includes: investigating allegations of misconduct, fraud and other corrupt practices; retaliation against FAO personnel who report wrongdoing or cooperate with an OIG audit or investigation; as well as those of sexual exploitation and abuse. This was expanded at the beginning of 2016 to include cases of workplace harassment and responsibility for administering the Grievance Handling Mechanism as part of the Organization's Environmental and Social Management Guidelines.

43.   Cases of staff misconduct are investigated pursuant to FAO's Guidelines for Internal Administrative Investigations. Specific timelines are applicable to the different kinds of cases within OIG's mandate, each being set out in the Organization's policies governing the particular conduct in question. In all cases, allegations received by OIG are subject to a preliminary review to determine whether the matter falls within the office's mandate or should be referred to another division within FAO or to another organization. For those falling within OIG's mandate, the preliminary review assesses whether there are sufficient grounds to initiate a full investigation. In cases where OIG conducts a full investigation, OIG reports its conclusions on whether the allegations are substantiated to the Director-General (for senior staff) or the Assistant Director-General, Corporate Services (or the delegated authority in other cases) for a decision on what, if any, administrative action is to be taken, including disciplinary proceedings pursuant to FAO Manual Section 330.

44.   Allegations of fraudulent and corrupt activities by third parties (i.e. vendors, suppliers and implementing partners) involved in the Organization's programmes and operations are reviewed to protect the Organization and to promote the full benefit of FAO programmes and projects to affected populations. These cases are subject to a preliminary review to determine if there are reasonable grounds to believe a sanctionable action has occurred. Where OIG finds a third party engaged in sanctionable actions, the investigation results and a request to begin sanctions procedures are prepared and sent to FAO's Vendor Sanctions Committee. The Committee will decide whether to open a sanctions procedure, and if opened, evaluate OIG's report and the vendor's response before making a recommendation to the ADG/CS on whether to sanction the third party in question.

45.   Reviews of complaints made under FAO's Grievance Mechanism, of non-compliance with FAO's Environmental and Social Management Guidelines follow a similar process to that outlined above. Allegations of non-compliance are evaluated to determine if they relate to projects associated with the Organization. In those cases where a connection with the Organization is found, a public comment period is opened, after which OIG launches an inspection to evaluate the situation in the field. A report is then prepared and submitted to the Director-General for consideration and decision.

46.   Where OIG makes adverse findings against FAO personnel or third parties, it recommends that management take appropriate administrative action, with the action determined by management. Disciplinary actions regarding FAO personnel can include suspension without pay, demotion and dismissal. Actions against third parties can include reprimand, conditional non-debarment, debarment and the recovery of amounts lost due to the third party's malfeasance. OIG may also recommend the temporary suspension of vendors to protect the interests of the Organization in third party cases before a final recommendation is made. OIG's responsibilities pursuant to the Whistleblower Protection Policy include recommendations on measures to protect whistleblowers, such as the suspension of a

potentially retaliatory decision. At the conclusion of these cases, OIG may also recommend that corrective actions be taken for those who cooperate with OIG audits and investigations and have been subject to, or are at imminent risk of, retaliation.

47.   To ensure that cases are appropriately prioritized, OIG employs a triage system. Prioritization is based on (i) the gravity of any negative effect on FAO's operations and objectives; (ii) effect on FAO's finances; (iii) effect on FAO's reputation; (iv) other facts including the ability to deter future wrongful practices, the resources required to undertake the investigation and the likelihood of resolution. The decision to initiate a full investigation is taken by the Inspector General in consultation with the Senior Investigator based on the results of the preliminary review. An overview graphic of the investigative process is provided in Figure 5 below.

Figure 5 – Summary Overview of the OIG Investigative Process

POLICIES ESTABLISHING CRITERIA FOR MISCONDUCT
Policy Against Fraud and Other Corrupt Practices
~
Protection from Sexual Exploitation and Sexual Abuse
~
Policy on the Prevention of Harassment, Sexual Harassment and Abuse of Authority
~
Whistleblower Protection Policy
~
Staff Rules and Regulations
~
Standards of Conduct for the International Civil Service

VENDOR SANCTIONS
FAO Vendor Sanctions Policy
~
FAO Vendor Sanctions Procedures
~
Procurement of Goods, Works and Services
~
Letters of Agreement
~
Letters of Agreement (MS 507)

Receipt of complaint

Preliminary Review

Decision to open Investigation

Investigation

For FAO personnel, if misconduct is established:

Report submitted to DG / Delegated authority

Decision by DG / Delegated authority

For third parties, if misconduct is established:

Report to Vendor Sanctions Committee

Recommendation to ADG/CS

Decision by ADG/CS

POSSIBLE DECISIONS
Possible outcomes for FAO personnel under staff rules include written censure, suspension without pay, demotion, dismissal for misconduct and summary dismissal for serious misconduct.
Possible outcomes for third parties include reprimand, conditional non-debarment, debarment with conditional release, debarment, restitution or remedy for losses and any other sanction the Vendor Sanctions Committee deems appropriate.

Investigation Case Load Management

48.   OIG began 2016 with 35 open cases, comprising 86 allegations. During the course of the year, OIG received 103 new complaints (comprising 153 allegations) representing a 27 percent increase compared to the previous year and nine requests for consultations/advisory services. OIG was able to close 91 complaints (comprising 150 allegations) and eight consultations/advisory requests, including

those carried over from the previous year(s). Figure 6 below provides an overall view of the disposition of complaints during the year and comparison with the four prior years:

Figure 6 – Case Load Disposition

Case Load	2012	2013	2014	2015	2016
Complaints Carried over from previous years	35	20	27	35	35
New Complaints	82	62	64	81	103
Subtotal	117	82	91	116	138
New Consultations / Advisory services	37	26	27	16	9
Total Matters (Cases & Consultations)	154	108	118	132	147
Complaints Closed	97	65	53	79	91
Consultations / Advisory services Closed	37	16	30	16	8
Ending Case Load	20	27	35	35	48

Origin of complaints

49.   As indicated in Figure 7 below, OIG has consistently received the majority of complaints from FAO personnel, followed by third parties, internal referrals of matters detected during OIG's audits, inspections and advisory work and anonymous contacts. Most complaints were made by males, but since this is the first time OIG disaggregates the data by gender, we would need more comparison years to identify proper trends.

Figure 7 – Source of Complaints in 2016 and complaints by gender
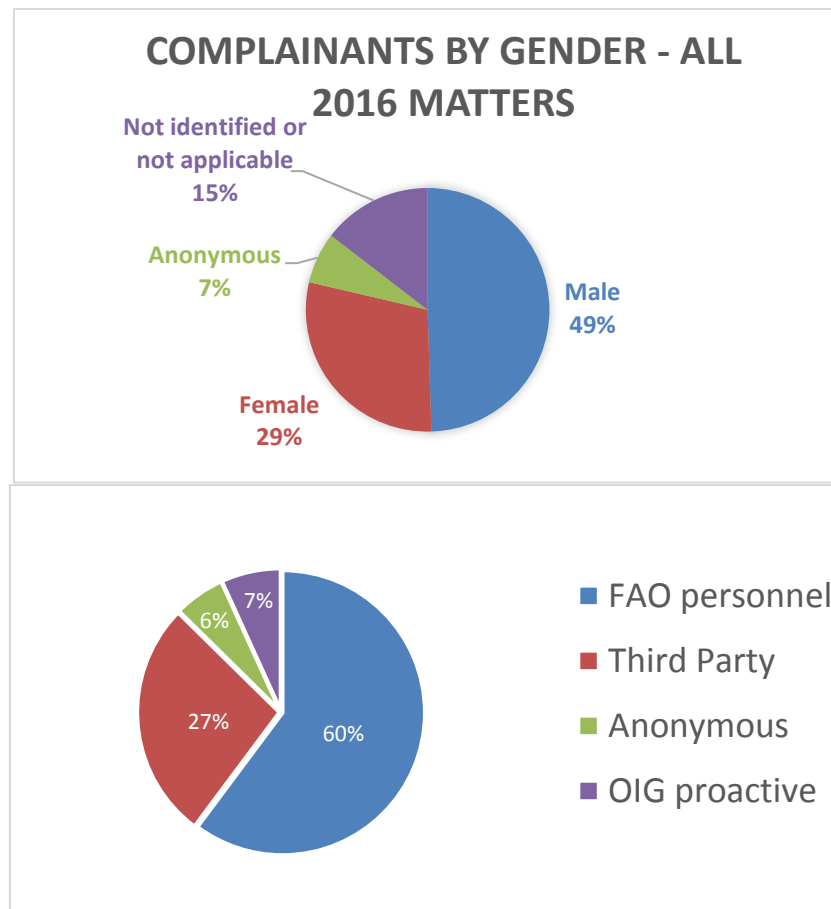
Types of cases

50.   The chart in Figure 8 below shows the types of allegations received during 2016. It is important to note that an individual complaint received by OIG may include multiple allegations. The initial classification of allegations is based on the preliminary information OIG receives. Over the course of an investigation, OIG may modify the classification as more information becomes available.

51.   The Grievance Handling Mechanism as part of the Organization's Environmental and Social Management Guidelines was only introduced in early 2015, and requires exhaustion of prior steps at project and Organizational level before lodging complaints with OIG, and as at the end of 2016 OIG had not received any complaints under this Mechanism.

52.   Allegations of misconduct which fall within OIG's other investigative mandate areas are broadly divided into the following categories:

- procurement related fraud and other corrupt practices;
- fraud and other corrupt practices, not related to procurement, covered by the Organization's "Policy Against Fraud and other Corrupt Practices";
- sexual exploitation and abuse, as defined in the Organization's policy on the "Protection from Sexual Exploitation and Sexual Abuse (PSEA)";
- harassment as defined in the Organization's "Policy on the Prevention of Harassment, Sexual Harassment and Abuse of Authority";
- retaliation, as defined in the Organization's "Whistleblower Protection Policy"; and

- other unsatisfactory conduct including favouritism, conflict of interest, misuse of resources, and causing damage to the reputation of the Organization, as described in FAO's Administrative Manual Section 330 and the Standards of Conduct for the International Civil Service.

Figure 8 – Type of Allegations of Misconduct Received
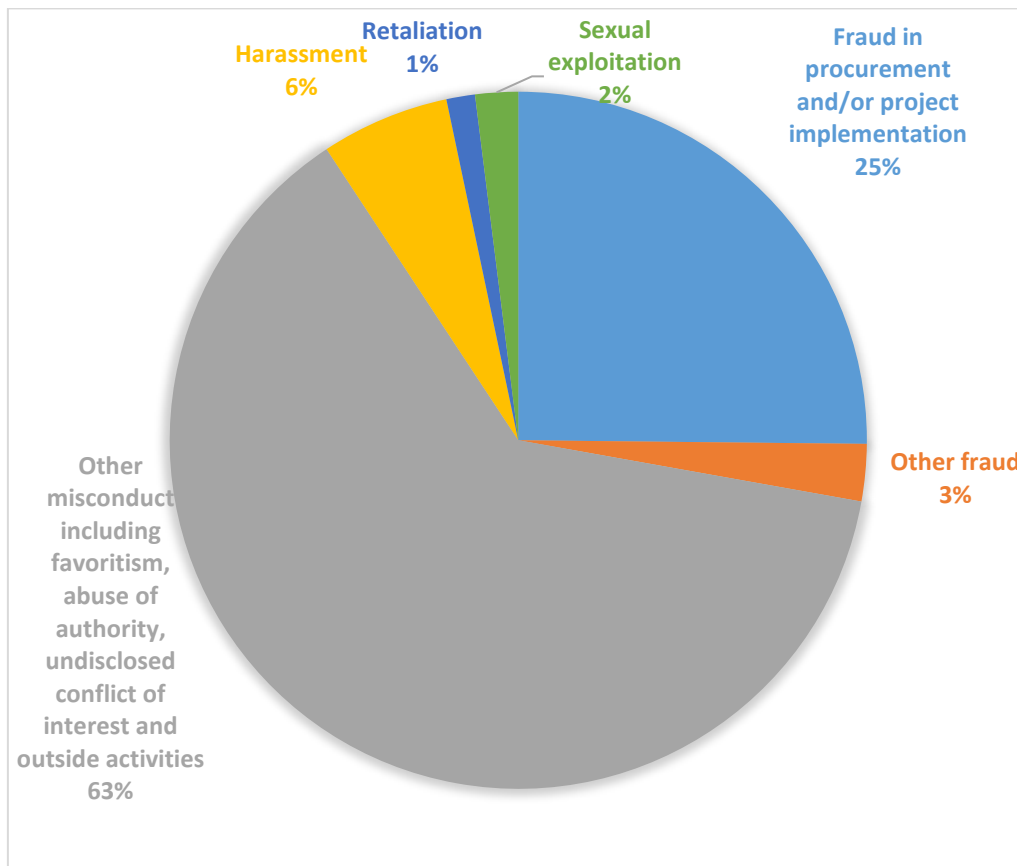
Outcome of cases

53.   An OIG investigation will conclude on whether the allegations are:

- substantiated - the evidence gathered is sufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred;
- unsubstantiated - the evidence gathered is insufficient to establish that the allegation is true, and fraudulent activity or misconduct occurred; or
- unfounded - the evidence is reasonably sufficient to conclude that the allegation is not true and no fraudulent activity or misconduct occurred.

54.   Figure 9 below shows the results according to these conclusions for all 91 cases closed in 2016. During the course of a preliminary review or full investigation, OIG may establish sufficient evidence to show that the allegations are unfounded, thus clearing FAO Personnel or a third party of any wrongdoing. This is an equally important outcome for the Organization, for FAO Personnel and the third party.

Figure 9 – Outcome of complaints concluded in 2016
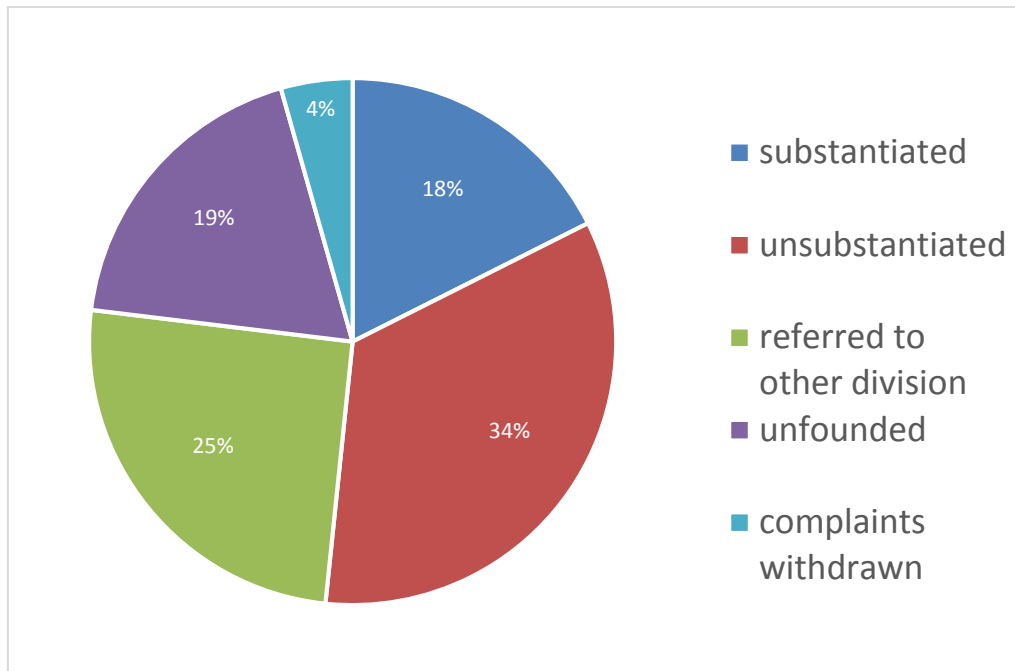
55.   Of the 91 cases closed in 2016:

- sixteen were closed as substantiated following investigative action by OIG;
- seventeen were closed as unfounded following a determination that no wrongdoing had occurred (i.e., the allegation is not true and no fraudulent activity or misconduct occurred);
- thirty-one were closed as unsubstantiated;
- twenty-three were referred to other divisions within FAO as they were either determined to fall outside OIG's mandate or alternative measures could be taken to address the concerns raised by the complainant; or in the absence of sufficient information to warrant investigation at this time, were referred for consideration in a future audit; and
- four complaints were withdrawn by the complainants during the preliminary review.

56.   OIG-INV's target is to close complaints within six months of receipt. The average number of days between receipt and closure of complaints in 2016 was 139 (i.e. four and half months).

57.   OIG issued ten investigation reports in 2016 broadly covering cases of fraud in procurement or project implementation, sexual exploitation and abuse, harassment, conflict of interest, fraud and whistleblower protection. OIG also issued 11 memoranda where an investigation was carried out and a full investigation report was not required, or the allegations were not substantiated but conclusions and/or observations needed to be conveyed to management.

58.   Of the investigation reports with recommendations involving FAO Personnel, pending in 2016, all of them have been implemented and the Organization has taken appropriate administrative action, including disciplinary measures. There were three matters before the FAO's Vendor Sanctions Committee in 2016. One resulted in a sanction against the vendor in question. The other two matters, subsequent to the submission to the Vendors Sanctions Committee, are being negotiated with the vendors to reach a settlement.

59.   Most investigations completed in 2016 related to FAO personnel or contractors/bidders/implementing partners located in the field (where the risks for the Organization have been growing along with the recent and ongoing Organizational decentralization). These types of investigations tend to be more resource intensive, in terms of staff time as well as travel, compared to headquarters-based cases, contributing to a greater investigative workload for the Office.

60.   The following summary provides representative examples of cases completed in 2016:

- Case 1: Investigation into allegations that a senior officer in a field office had undisclosed conflicts of interest and used his position to promote the interests of his private companies in FAO procurement actions. OIG fielded a mission to interview the personnel in question and review relevant procurement documentation and IT forensic data. During the course of the investigation, it came to OIG's attention that the senior official in question may also have committed fraud, with the knowledge and assistance of an FAO consultant under his supervision, in order to benefit from an undue rental subsidy entitlement from the Organization. OIG determined that the allegations were substantiated with regards to both the senior official and the consultant. Both personnel in question are no longer with FAO (the staff member was dismissed following disciplinary action, and the consultant's contract was not renewed).

- Case 2: Fraud in Project Implementation – OIG investigated and reported on allegations of fraud by implementing partners and a money vendor in the implementation of cash based transfer projects. OIG identified multiple sites where implementing partners inaccurately reported rehabilitation works as completed. The implementing partner provided falsified documentation to demonstrate project implementation as part of their requests for payment, which the money vendor accepted despite knowing it was false, and on the basis of which they requested payment from FAO. Both matters are now with the procurement service for resolution because the contracts with the implementing partners and the money vendor were signed prior to the creation of the Vendor Sanctions Committee.

- Case 3: Corruption in Project Implementation – OIG conducted an investigation into allegations of fraudulent and corrupt practices by a senior national staff member and his subordinate, a local consultant. These related to, among others issues, possible extortion of payments from consultants and implementing partners under their supervision in exchange for contracts, diversion of project funds and approving payments for work not implemented (or only partially so). OIG fielded two missions and made adverse findings against the staff member and consultant. With regard to the senior national staff member, OIG found that he was grossly negligent in overseeing the management of implementing partners' work, approving inflated budget proposals for project activities and unsupported contract payments to FAO implementing partners. Disciplinary proceedings have resulted in his dismissal. With regard to the local consultant, OIG found that he repeatedly solicited and received payments from consultants and implementing partners under his supervision in exchange for their contracts. The investigation also found that the consultant had misused FAO resources (vehicles and personnel) for personal purposes, and used his position with FAO to promote undisclosed personal financial interests. Following expiration of his contract during the investigation, the consultant's employment was not extended. OIG will consider how to ensure that former consultants who faced adverse findings are not rehired in the UN system; at the moment there are no exchanges of such information.

- Case 4: Conflict of Interest – OIG reviewed allegations that a former senior officer in a RO had an apparent conflict of interest by using his position to promote the interests of FAO partners, with whom he established professional affiliations following his retirement from FAO, and which he maintained as of the date of the report. OIG concluded that they gave rise to an appearance of impropriety and constituted a reputational risk for the Organization. A report was prepared presenting OIG's findings and recommendations to address the reputational risks that were identified during the review.

- Case 5: Conflict of Interest and Procurement Ethics - OIG conducted an investigation into allegations that two consultants in a field office were married and that this relationship had not been properly disclosed to the Organization. The allegation further indicated that by virtue of one of the consultant's responsibilities in procurement, this relationship assisted and/or favoured the awarding of contracts and purchases to a company owned by the other consultant/her spouse. OIG fielded a mission to the office in question to interview personnel, conduct a company records search and review relevant procurement documentation and IT forensic data. OIG concluded that while the relationship between the consultants was generally known, it had not been formally disclosed in a timely manner. OIG further concluded that the consultants had violated FAO's rules on procurement ethics by actively participating, and sharing confidential information, in FAO procurement actions in which a company owned by one of the two consultants participated and was awarded contracts. OIG recommended that appropriate administrative action be taken against these individuals, who were subsequently separated from service with the Organization.

Inspections and Other Advisory Services

61.   In addition to scheduled audits and investigations responding to allegations of misconduct, OIG undertakes inspections on particular subjects or events to clarify facts or provide information for management decision-making. The annual workplans include provision for additional work outside the risk-based priorities by audit or investigation staff. These may be to conduct inspections of particular events or activities at management request or as part of proactive reviews. In 2016, OIG completed three inspections:

- Inspection of compliance with policies related to travel to Liaison Offices. Official travel to Brussels, Geneva, Yokohama, New York and Washington, requires approval by the Office of the Director-General (ODG). Authorization is granted on the grounds of the technical or specialized nature of the meeting or event and is agreed with the Liaison Office. ODG requested that OIG conduct a compliance review of this rule. Of the 116 Travel Authorizations (TAs) reviewed, 67 percent were found to be non-compliant with ODG's instructions on requesting authorization as described above. The high level of non-compliance indicated that there was a misunderstanding of the instructions. OIG suggested that staff be reminded to comply with the rules and that ODG provide clarification on the clearance procedures required.
- Inspection of field project implementation – OIG conducted an inspection of a project field office to determine if activities were being properly implemented. In particular, the inspection aimed to determine if the field staff and project managers were properly documenting activities and expenditure. OIG found that the financial documentation was not properly maintained and that records did not consistently reflect actual expenditure by the implementing partner. OIG also determined that the project managers were not properly reviewing the financial records and documentation demonstrating project implementation before approving payments to implementing partners and beneficiaries. OIG brought these matters to the attention of the Country Representative and responsible officers at headquarters so that they could be addressed.
- Inspection at headquarters – OIG conducted an inspection to determine the circumstances surrounding the proposed move of a recently recruited staff member to a Decentralized Office. The matter arose because the staff member had been recruited to a position at headquarters, but was scheduled to move almost immediately following his appointment. OIG clarified the circumstances of the decisions as well as related roles and responsibilities, ultimately determining that the change in duty station was proposed in the best interest of the Organization and the staff member in question.

62.   In addition, OIG issued three audit memoranda for management attention on commissary write-offs (1) and other accounts payable write-offs (2).

63.   OIG is a permanent member with observer status in internal committees, e.g. overseeing investments and the Credit Union. In 2016 OIG also participated in two ad-hoc inter-departmental working groups dealing with the development of an internal control framework and new operational modalities.

64.   OIG responded to more than 40 other requests for short duration advisory and consulting services during 2016. These included: comments and advice on the establishment of monitoring activities of outposted CSF officers; concept note for the restructuring of the FAO Somalia office; new Pillar Assessed Grant or Delegation Agreement (PAGODA) template; EU verifications and Residual Error Rate (RER); capacity building and Budget Holder training programmes; Operational Partners Implementation Modality (OPIM) micro assessment; corporate information systems; policy on cash transfer projects; business continuity plan FAO Turkey; Syria/GOAL IP assessment; Nigeria risk management and partner capacity assessment tools; new partnership agreements; reviews of a number of project agreements; and audit clauses in various draft donor contracts and legal templates and Administrative Manual updates.

65.   OIG provided advisory services to various Representations dealing with fraud reporting to donors. In addition, OIG provided similar services to other departments within the Organization for reporting results of OIG's work and provided input on draft agreements for the sharing of information relating to fraud detection and prevention with external parties.

Implementing the OIG Report Disclosure Policy

66.   The FAO Council approved an OIG report disclosure policy in April 2011, which was incorporated into OIG's Charter. Under this policy, audit reports and reports of lessons learned from investigations issued on or after 12 April 2011 may be viewed by Permanent Representatives, or their nominees, upon direct request to the Inspector General. In November 2012, to facilitate implementation of the policy, the Finance Committee endorsed a revision to allow for remote on-line viewing of reports, as an alternative to viewing them on OIG premises. Information on OIG reports issued and covered under the policy is periodically updated on the Permanent Representatives' website. A secure internet-based solution, configured to apply the "view only" policy, was deployed in 2013. In 2016, five requests[2] for remote on-line viewing from four members, covering the following four audit reports were submitted and fulfilled according to the policy within the response times set out therein:

- AUD 2115 - Review of Gender mainstreaming in FAO's Strategic Framework
- AUD 2915 - Management, Finance and Administration Review (Desk Review): FAO Representation in Eritrea
- AUD 0716 - High Level Review of Management of Risks of Financial Fraud and other Corrupt Practices in FAO
- AUD 0616 - Comprehensive Review of the FAO Representation in Uganda

67.   There were no instances of withholding or redacting of reports.

OIG Management Managing OIG's Internal Capacity and Operations

68.   OIG delivers value through the management of its people, financial budget, technology and methodologies. Its audit and investigation functions are subject to periodic external review.


[2] One report was requested twice by a Member State.

OIG Staffing and Budget

69.   As at 31 December 2016, OIG had 25 approved posts. These include those of the Inspector General, 18 Professional staff, four of which are out-stationed in each of the Regional Offices in Cairo, Bangkok, Accra and Santiago de Chile; and six General Service staff, four of whom are attached to audit or investigation teams and undertake audit or investigation support tasks. Annex G to this report depicts OIG's staffing situation, with some demographic and gender information.

70.   During 2016, the Audit Unit comprised three P5 Senior Auditors reporting to the Inspector General and leading audit teams with regular interchange of audit staff to meet work needs. The Investigation Unit received a G6 staff member temporarily seconded from RAF to assist with forensic investigation work. At the end of 2016, OIG had four audit posts vacant (P5 headquarters, P4 Bangkok, P3 Santiago and P2 headquarters) and two investigation posts (both P3 headquarters). In two cases (one auditor and one investigator) the vacancies were filled in February 2017, in three other cases a recruitment process was in progress. Finally, in early 2017 OIG requested regrading the vacant P5 headquarters post to P4, and upgrading the P3 Santiago post to P4. In the case of the vacant investigator post, for most of 2016 OIG used the secondment mentioned above to further re-appraise the job profile prior to initiating further recruitment action. OIG was able to achieve its audit workplan and investigation caseload results with the support of experienced and well qualified consultants. In addition, to assist with managing the investigation caseload, including provision of specialized expertise in its new mandate areas of harassment and sexual exploitation and abuse, staffing was supplemented with an additional 458 consultant/days beyond that required for backfilling vacancies.

71.   OIG's 2016-2017 biennial budget is USD 9.3 million, mostly from Regular Programme sources. At the end of 2016, OIG estimated at the time of this report a surplus of approximately USD 280 000. Savings from staff vacancies were largely offset by additional spending on consultancies. The breakdown of OIG's costs is as follows:

Figure 10 –2016 Provisional Expenditure
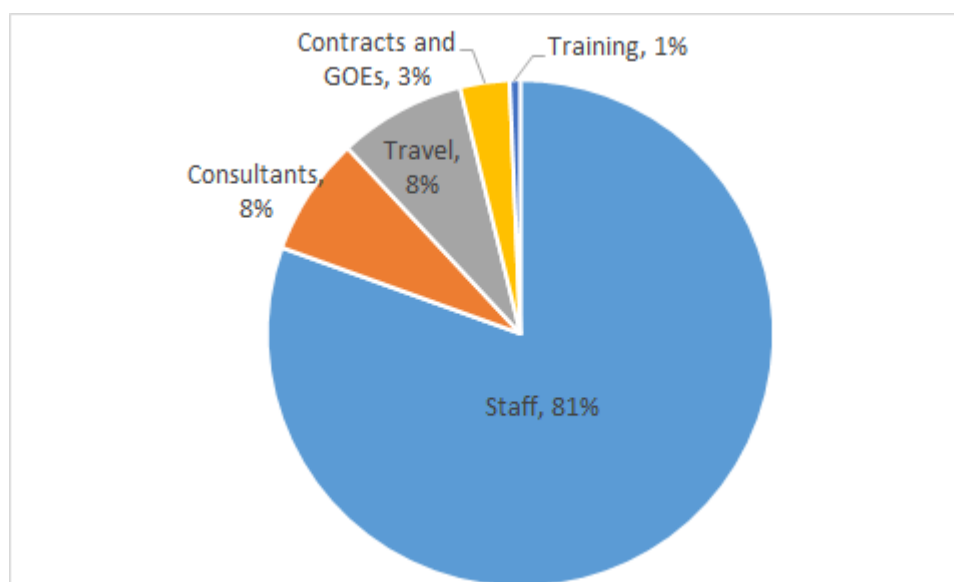
Staff Professional Development

72.   OIG invests heavily in staff development to ensure that it stays abreast of good practice in audit and investigation methods and organizational management and development concepts and to extend staff language skills. Individual training needs are identified under the Individual Development

Plan component of the Organization's Performance Evaluation Management System (PEMS) at the beginning of each year. In addition, broader staff needs are addressed in group training sessions, where possible in collaboration with counterparts in the other Rome-based agencies or other UN/intergovernmental organizations. OIG's Training Focal Point oversees the implementation of an OIG training plan developed from these elements and integrated into an FAO-wide process. OIG expresses its appreciation to the Training Unit (OHRT) for the extensive support it provided with the review and implementation of the 2016 training plan.

73.   In 2016, OIG subscribed to IIA corporate membership covering all internal audit staff. The membership provides access to the Institute's journals, on line professional resources and discounted training. Furthermore, OIG continued to support staff in obtaining and maintaining professional internal audit, information technology, forensics, risk management and fraud examination qualifications. A five day tailored audit and investigations group training on report writing and fraud red flags was also provided to meet the specific needs of the division.

Update of Job Profiles and Implementation of Performance Evaluation and Management System (PEMS)

74.   In 2016, OIG completed an update of the job profiles for its Professional and specialized General Service positions and this was taken into account in its implementation of the Organization's PEMS. PEMS is FAO's system of performance appraisal that is an integral part of its Human Resources Strategy and is linked to other key components including career performance management. Although a transition year for FAO in its approach to PEMS, annual workplans for 2016, linked to OIG's Results in FAO's planning and budgeting framework, were completed for all OIG staff and were assessed in early 2016. The performance planning, evaluation and development elements of the process support internal communications within the Office on performance and are a core component of OIG's quality assurance and improvement programmes for both the audit and investigation groups.

Technology Support

75.   OIG utilizes widely adopted audit and case management software which support professional standards compliance and process efficiencies. OIG also utilizes specialized security software to support its report disclosure policy and Audit Committee operations.

Audit Quality Assurance and Improvement Programme

76.   As part of its audit quality assurance and improvement programme, OIG sends a client feedback questionnaire for each finalized audit to the principal recipient of the final report. The average overall satisfaction rating of the 19 responses received from auditees for reports issued in 2016 was 5.4 from a maximum score of six. Aggregated details of the survey results are shared with management and the FAO Audit Committee through OIG's activity reports.

77.   Independent assessments carried out by qualified external reviewers are scheduled every five years to meet international internal audit standards. Recommendations from the last review in 2012 were fully implemented and a mid-point internal quality assurance review took place at the end of 2015, with the assistance of an external expert. The report was finalized in early 2016, and the reviewer concluded that OIG is currently operating in general conformance[3] with the International Professional Practices Framework of the IIA, and that the services provided by OIG are viewed by stakeholders as value added and essential to the management oversight structure of FAO. The reviewer identified a number of areas of improvement to be considered ahead of the next external quality assessment which is due by 2017.

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[3] This is the highest rating that can be given under the IIA quality assurance standard.

Investigation Quality Assurance and Improvement Programme

78.   An external assessment of the investigation function took place in June 2013. Overall, the review concluded that OIG complies with international investigation standards, and had positive conclusions with regard to case management, documentation and reporting. As of the end of 2016, most recommendations from this review had been implemented with closure of pending ones linked to finalization and promulgation of updates to FAO's Investigation Guidelines. The internal review process for this update was in progress within FAO as at end of 2016. Follow-up action on pending recommendations is monitored by FAO's Audit Committee.

Maximizing Oversight Coverage and Harmonization through Coordination and Collaboration with other Oversight Bodies

Coordination with other FAO Oversight Bodies and Ethics/Ombudsman Office

79.   During the year, OIG met routinely with the Office of Evaluation (OED) and the External Auditor to discuss their respective workplans to ensure that the oversight bodies' work did not unnecessarily duplicate review activities, and to provide input into the planning of their respective assignments. OED and the External Auditor are routinely copied on all internal audit reports and meetings are held at working level on various assignments when relevant to work and assignment planning. In preparing for individual audit assignments, OIG reviewed and took into account the issues and recommendations the External Auditor presented to management in the form of management letters and of OED's evaluation reports.

80.   Specific examples of close OIG and OED collaboration in 2016 include:

- Somalia (audit following evaluation) – OIG's audit scope was defined not to duplicate the efforts (e.g. Resilience Programme was not covered by OIG as it was reviewed by OED); OED shared information collected including meetings summaries with interviewees, and OIG referred to OED's recommendations on Resilience instead of making its own recommendations on the topics covered by OED.
- Madagascar (phased evaluation and audit during same period) - Close coordination throughout scoping, detailed planning, execution and reporting phases.
- Colombia (phased evaluation and audit during same period) – OED included Colombia, among other countries, in its sample for the evaluation of Strategic Objective 3. OIG incorporated its audit-related questions to stakeholders into OED's interview questionnaire and analysed the OED team's results as supporting evidence to avoid meeting with the same stakeholders during the audit, and, in addition, OIG interviewed a complementary set of stakeholders. Audit and evaluation results were shared.

81.   There was regular communication throughout the year with the Ethics/Ombudsman Office. In some cases complaints received by OIG or the Ethics/Ombudsman Office were referred to the other when these fell under the other's mandate. The Ethics/Ombudsman Office assisted with awareness raising of OIG's mandate and anti-fraud policies in its training activities.

Collaboration with the Oversight Services of the Other Rome-based Agencies

82.   The 2016 edition of the annual joint session of staff from the audit, inspection & investigation functions of the three Rome-based agencies was hosted by IFAD, in order to strengthen cooperation, interaction and networking and professional updating across the agencies. The event included a session with the Chief Information Officer from the three RBAs and an officer from INTERPOL Global Complex for Innovation on cybersecurity.

Collaboration with other UN Agencies and Intergovernmental Organizations

83.   OIG continued to be an active member of the professional networks for audit and investigation in the UN System and the wider international organization sector. The RIAS is the network of Representatives of Internal Audit Services of the UN System, Multilateral Financial Institutions and Associated Organizations (the professional network of internal audit services of intergovernmental organizations). UN-RIAS is the UN System sub-group of this network. The Conference of International Investigators (CII) brings together the investigations functions of UN agencies, Multilateral Development Banks and other intergovernmental organizations, such as the European Anti-Fraud Office. The UNRIS (UN Representatives of Investigation Services) is the UN System sub-group of this network. These networks provide valuable sources of information for enhancing OIG's own performance, opportunities for addressing coverage of jointly managed programmes and are a basis for harmonized development of the audit and investigation functions across the UN and intergovernmental sectors.

84.   Responding to the UN General Assembly resolution on the Quadrennial Comprehensive Policy Review, the UN Chief Executives Board system has prioritized the development of UN System-wide joint internal audits of joint programmes. This is being responded to collectively by the UN Internal Audit Services, including OIG, through the UN-RIAS.

85.   Joint audit of several UN Internal Audit Services, led by UNDP, of Delivering as One in Vietnam was under way in 2016. Another joint audit of CERF in Ethiopia, led by WFP, was initiated in 2016. OIG is participating as a member of the steering committees in the planning and oversight of these joint audits, and its own audit results informed the joint audits. Results of these joint audits will be reported in 2017.

86.   OIG participated in the 47th Plenary RIAS and 10th UN-RIAS meetings held in September 2016 at UNDP in New York. Topics covered in the RIAS/UN-RIAS meetings attended by the Inspector General and a Senior Auditor, and inter-sessional activities, included:

- Issues Arising from Audits of Financial Statements.
- The JIU Report on the Internal Audit Function.
- Macro-Level Opinions and Status of Reflection on Organization Wide Audit Opinion.
- Harmonization of Engagement Level Audit Ratings.
- Quantifying Costs of Oversight and Accountability in the UN System.
- GAIN Benchmarking Survey.
- Future of Internal Audit - Trend, Back to the future, Positioning Big Data, Usage of CAATS and continuous auditing.
- Risk Management in international organizations facing the refugee crisis.
- Auditing 'project methodology' for projects of all sorts and sizes.
- Climate change.
- Identifying red flags - internal audit role in detecting and preventing fraud.
- Auditing an Organization's ERM - COSO 2013.
- Cyber Security.
- Performance Auditing.
- Internal auditors' role in anti-money laundering and combating illicit money flows.

87.   OIG presented the results of the annual benchmarking survey of IAS, moderated the panel on EU-UN relations and jointly held the presentation on Performance Auditing with the Internal Audit Service of the European Commission.

88.   In October 2016, the Inspector General, the Senior Investigator and the P-4 investigator participated in the 17th CII and 3rd annual meeting of UN-RIS, hosted by the International Anti-

Corruption Academy in Laxenburg, Austria. The Inspector General was elected coordinator of the UN-RIS for the period 2016-2017.

89.   The Inspector General was also a speaker at the Conference where he discussed the topic of how to deal with allegations against senior/top management. During the UNRIS, FAO as lead agency presented on the practice working-group on the topics of Vendors Sanctions Regime and draft policy on "Investigation of allegations against personnel of Investigation Units".

90.   Topics covered in the CII/UNRIS meetings included:

- Developing and sustaining an ethical organizational culture.
- Combating fraud and corruption in development projects through both enforcement and prevention.
- Latest developments on the legal framework and impact of immunities on investigations.
- Latest development of whistleblowing policies.
- The role of forensic and investigative accounting in investigations.
- Internal staff investigations, with a focus on misconduct investigations.

Annex A

Risk entities in OIG Corporate Risk Register that were covered in audits completed or underway at end of 2016 (high-risk entities in bold and italics)

Entity Category	Sub-category		Auditable entity / high risks
Delivery of Strategic Objectives	Strategic Framework governance		***Strategic Direction, Coordination and Oversight***
	Formulation of SO Action Plans and Results Framework		***Results Framework***
	Field Programme Management and Operations		***Project Formulation and Approval***
			Project monitoring
			Level 1 and 2 emergency projects management and delivery
			Budget Control
			Distribution of inputs
			Sustainability of projects' benefits
Enabling Environment	FO6-Technical quality, knowledge and services		***Technical Clearances***
			Technical Support Services (TSS)
			Statistics
	FO8-Outreach		***Resource mobilization***
			Global Environment Facility (GEF)
	FO9- Information Systems and Technology		***ERP***
			Capital Expenditure Projects
	FO10- FAO governance, oversight and direction		***Implementation of recommendations***
			Anti-fraud Policies and Procedures
Enabling Environment 2 (Administration)	FO11- Efficient and effective administration	Financial Management	Investments
			Disbursements by DOs
			Internal Control and Accountability Framework
			Capital Management

		Human Resources Management	Staff Entitlements: Education Grant
		Procurement Assets and Facilities management	*Fixed Assets Management*
			Procurement of Goods
			Procurement Planning
			Field Procurement
			Procurement of Information Products and Promotional Development (IPPD)
		Administrative and Other Services	Commissary Benefits
			Credit Union
	DOs Management & Performance	DOs structure and capacity	*Decentralized Offices structure and capacity*

Annex B

Decentralized Office Audit Coverage

Planned achievement of target of full coverage for all significant Country Offices over three biennia ending in 2017, by region and year:

	REU	RAP	RNE	RLC	RAF
2012	2	4	1	6	10
2013		5	1	5	14
2014		7		2	7
2015	1	3	1	2	10
2016	1	2	5	2	4
2017	2	2	3	2	8

Geographic coverage.
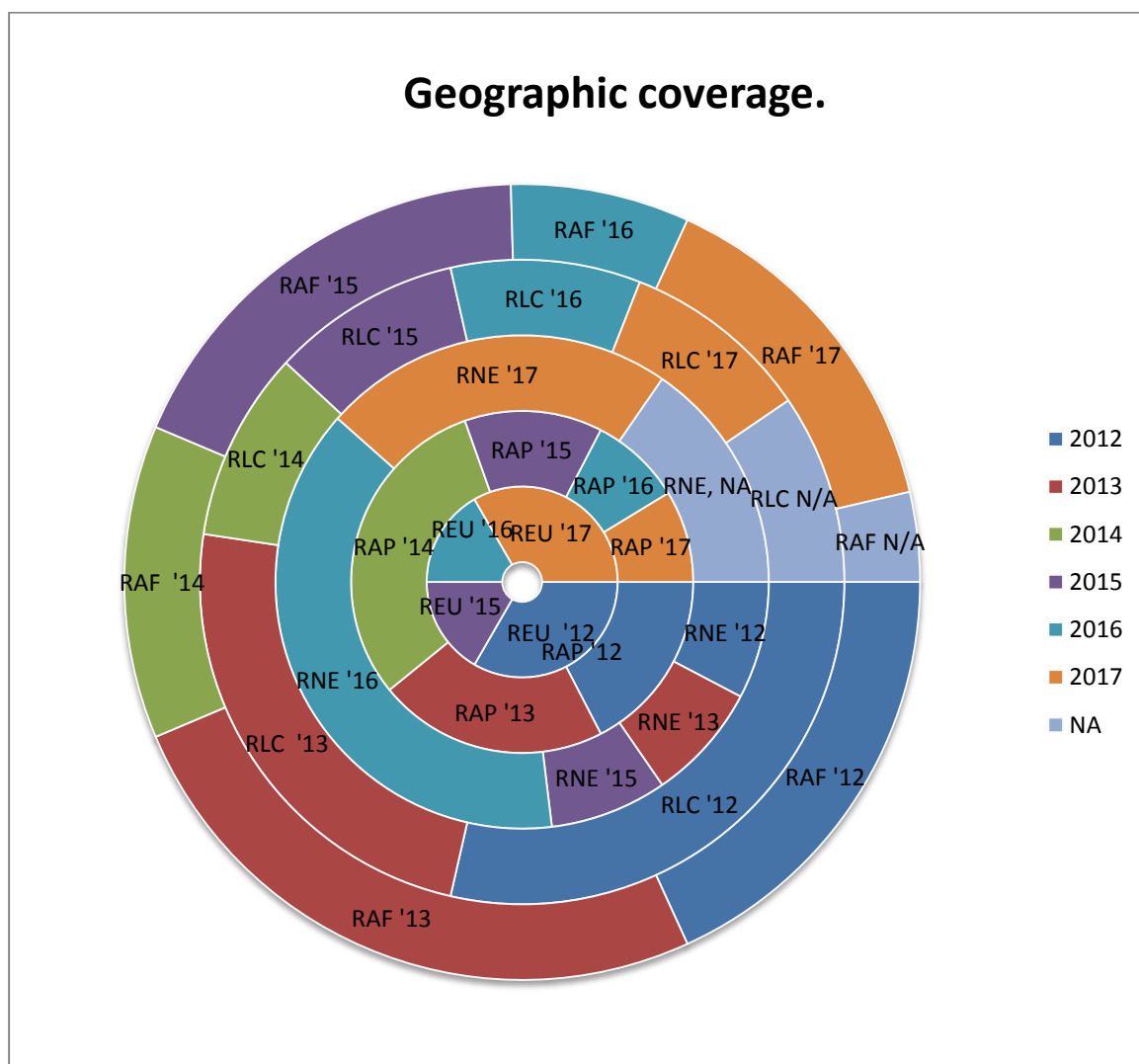
Annex C

Reports Issued in 2016 Subject to Disclosure Policy

Assignment Description	Report No.
Comprehensive Review of the FAO Representation in Haiti	AUD0116
Review of the Technical Support Services (TSS)	AUD0216
Treasury Risk Assessment	AUD0316
PO Capping Report	AUD0416
Somalia: Comprehensive Country Review	AUD0516
Uganda: Comprehensive Country Review	AUD0616
High Level Review of Management of Risks of Financial Fraud and other Corrupt Practices in FAO	AUD0716
Commissary Physical Inventory Count 2015	AUD0816
Compliance with IT policies: hiring of IT-related NSHR	AUD0916
Management, Finance and Administration Review (Desk Review): FAO Representation in Liberia	AUD1016
Capping Report on Governance, Accountability and Internal Control System in Country Office Audits 2015	AUD1116
Finance and Administration Review of the FAO Representation in Guinea	AUD1216
Review of Education Grant	AUD1316
Investment Management	AUD1416
Implementation of the FAO Strategic Framework at the Regional Office for Latin America and the Caribbean (RLC)	AUD1516
Implementation of the FAO Strategic Framework at the Regional Office for Asia and the Pacific (RAP)	AUD1616
Implementation of the FAO Strategic Framework at the Regional Office for Africa (RAF)	AUD1716
Comprehensive Review of the FAO Representation in Senegal	AUD1816
Implementation of the FAO Strategic Framework at the Regional Office for Europe and Central Asia (REU)	AUD1916
FAO Representation in Jordan: Comprehensive Country Review	AUD2016
Comprehensive Review of the FAO Representation in Madagascar	AUD2116
Implementation of the FAO Strategic Framework at the Regional Office for RNE	AUD2216
Comprehensive Review of the FAO Representation in Yemen	AUD2316
Review of the Resource Mobilization Function in FAO	AUD2416
Subregional Office for Central Asia (SEC): Limited Review of Programme, Operations and Administration	AUD2516
Special Review of the FAO Commissary	AUD2616
FAO Representation in Nepal: Comprehensive Country Review	AUD2716
Fixed Asset Management	AUD2816
Comprehensive Review: FAO Subregional Office for the Pacific Islands (SAP)	AUD2916
Review of Information products and promotional development contracts (IPPD)	AUD3016
Review of FAO Medical Service	AUD3116

Investigations Lessons Learned Reports

Description	Reports Issued
None for 2016	

Annex D

Summaries of Results of Audits and Inspections Reported in 2016

AUD 0116 – Comprehensive Review of the FAO Representation in Haiti

The Governance, Accountability and Internal Control system of the Representation was assessed as Partially Satisfactory. The structure and staffing require improvement, including the issuance of an organigramme, the alignment of TORs, the reassessment of the P5 grade level of the FAOR and consideration of the establishment of a position of Deputy FAOR. Staff meetings should be held on a regular basis and a review performed of the support received from the Regional Office (RO)/Subregional Office (SRO). Performance monitoring and risk management both require further structuring, and duties need to be better segregated.

The area of Programme and Operations was assessed as Partially Satisfactory. The resource mobilization target for the CPF was not aligned with the actual activities. It was recommended that the next CPF (to be formulated in 2016), aligns a realistic resource mobilization target with activities. Resource mobilization, which was ad-hoc, should be organized on a systematic basis. A structured approach to the collection of data to support performance indicators should be put in place to provide a measurable basis to assess progress on CPF implementation. A structured process of regular meetings and reporting for the management and monitoring of projects should be established within the Representation. There are significant delays in some projects partly caused by unrealistic timelines, conflicts on the implementation approach with partners, and delays in recruitment and procurement.

Finance and Administration was assessed as Satisfactory. The main areas for improvement are in Procurement, particularly with regard to improved transparency and procedures over supplier selection, Assets and Human Resources.

The review raised 17 areas for action and seven compliance issues to address the identified weaknesses and deficiencies. The FAOR agreed with the recommended actions and has already initiated corrective measures.

AUD 0216 - Review of the Technical Support Services (TSS)

The review examined management of TSS resources as part of the Organization's cost recovery mechanism for its technical services and the effectiveness of the TSS provided to projects in ensuring the technical quality of the Organization's projects and programmes.

The Organization has established systems, rules and procedures for planning, budgeting and recording TSS. However, there was no agreement among key stakeholders on how the TSS recovery rate should be calculated for planning and reporting purposes. The absence of a standard corporate approach to identifying the TSS recovery rate for budgeted TSS was found to be the main weakness in the Organization's overall management of these resources. Among the several contributing factors, is the lack of ownership of the overall corporate TSS policy and an unclear chain of accountability that has resulted in this lack of consensus on the identification of TSS earnings among stakeholders. A further consequence is the unavailability of up-to-date data on TSS budgeted and recovered to accurately determine and monitor TSS recovery rates at corporate level, and recovery against TSS income targets at Unit level.

The technical units' capacity to properly plan and provide TSS in a timely manner is considered weak and ultimately affects the quality and effectiveness of TSS provided to projects. Contributory factors include: unfilled gaps in technical skills within the TSS providing units; uneven assignment of TSS responsibilities to the Lead Technical Officers (LTOs), resulting in a mismatch between TSS commitments and LTO capacity; and, inadequate measures within the Units for assessing TSS quality assurance.

The new Guide to the Project Cycle and the revised cost recovery provide clarity on roles and responsibilities, but several fundamental capacity issues remain to be addressed.

OIG agreed 14 actions with key stakeholders to help improve management of TSS resources and to enhance its quality and effectiveness. The following five actions are considered to be of highest priority:

-          standardize the methodology to calculate corporate TSS recovery rates;

-          review and consolidate FAO's policy and procedures for TSS in one document for ease of reference by all participants in the project cycle;

-          clearly outline roles, responsibilities and accountability for all stakeholders involved in TSS recovery;

-          automate the paper-based TSS recovery process for TF projects and harmonize it with that established for TCP; and

-          complete steps already initiated to assess the skills gaps and consider introducing TSS quality assurance systems.

AUD 0316 - FAO Treasury Risk Assessment

In late 2015, OIG hired the consulting firm KPMG to perform a risk assessment of the treasury function at FAO. Currently, the Finance Division is subdivided in to the following units that report directly to the Director and Treasurer:

-          Treasury and Investments;

-          Financial Operations;

-          Payroll;

-          Financial Reporting, General Ledger Accounting, Assets.

Treasury management operates at multiple levels and involves many different processes, ranging from the overall governance to the operational activities (cash management, investments, etc.). Numerous treasury activities are carried out by Global Financial Management and Banking and Payments units. In addition, treasury management has a huge implication in the field as main processes have a direct impact on the latter (cash replenishment, bank accounts, foreign exchange transactions, etc.).

The risk assessment mapped 41 potential risks and assessed 14 of them as low risk, 23 as medium risk and four as high risk. The four high risks relate to Foreign Exchange (FX) Management, Counterparty risk (i.e. the risk that the other party in an agreement may default, failing to meet its obligations), Imprest Bank Account Replenishment (i.e. the risk that excess funds may be provided leading to unnecessary exposure to country, counterparty and FX risks) and monitoring of operations. In addition, the assessment found the need to strengthen the overall control environment in CSF through better documentation of procedures, guidelines, roles and responsibilities.

OIG worked with CSF management to develop an action plan which includes 31 agreed actions to address the identified shortcomings.

AUD 0416 – Capping Report on Programme and Operations Issues in Country Office Audits – 2014 and 2015

To complement the Programme and Operations (P&O) audits of Country Offices (COs), OIG prepares Capping Reports (P&O Capping Reports) at regular intervals, summarizing common issues and recommending actions for improvements at the corporate level.

CO performance in P&O was assessed based on 14 control criteria, which OIG identified in consultation with FAO management. They are organized under two broad headings:

Audit Area A: Liaison, Communications and Country Programming;

Audit Area B: Programme Management and Field Programme Operations.

Overall, the P&O audits of COs found Satisfactory ratings for 59 percent of the audit control criteria on Audit Area A, and 61 percent on Audit Area B.

In Audit Area A, two areas require particular corporate attention: (i) liaison and advocacy, and (ii) CPF feasibility and resource mobilization. The establishment of measurable and agreed performance indicators for the FAORs, and a strengthened and meaningful quality assurance process by superordinate entities (Regional Offices (ROs) and headquarters units), would provide leverage for senior management to strengthen controls in this regard.

As regards Audit Area B, the COs reviewed generally performed well in aspects such as the selection of Implementing Partners/Service Providers and the execution of project requirements on evaluation and security. However, COs did not perform well in other areas such as operations monitoring and reporting. OIG found that many control deficiencies identified ultimately relate to weaknesses in accountability and internal control.

The preceding Capping Report (AUD 3014) had already developed a set of eight Agreed Actions to address this. Some have been concluded at this stage, and others are still in the process of being implemented by management. OIG refrains from proposing further Agreed Actions at this stage to allow management to focus on implementing those that are pivotal and still outstanding.

AUD 0516 – Comprehensive Review of the FAO Representation in Somalia

The Representation was rated Partially Satisfactory in the area of Programme. Overall, the newly appointed FAOR has further developed relationships with external stakeholders in both Nairobi and Mogadishu. Those interviewed by OIG provided positive feedback on the FAOR's liaison activities. Key areas for improvement included: (i) stronger emphasis on longer-term development and capacity building; (ii) establishment of realistic targets for resource mobilization; and (iii) establishment of an appropriate monitoring logframe for the CPF with SMART key performance indicators to measure progress made towards achieving country priorities.

The area of Governance, Accountability and Internal Control System was rated Partially Satisfactory. The Representation uses a programme approach to its operations in Somalia. This facilitates cost sharing and allows stronger concentration of resources on shared and internally agreed priorities. However, OIG observed several areas for improvement which need to be addressed to ensure transparency and purposefulness in using donor funds, including: (i) a streamlined structure with clearly assigned roles and responsibilities to staff and units and clear reporting lines; (ii) results-based monitoring and evaluation practices to minimize the risk of the Representation not reporting its performance fully and accurately; (iii) efficiency savings and cost reduction to ensure a level of common costs commensurate with the present volume of operations; and (iv) strengthened budget controls through solid management accounting, transparency and observance of generally accepted accounting principles for year-end carry forwards and adjustments.

In the area of Operations the Representation was rated Partially Satisfactory. It operates on the basis of a programme approach to improve effectiveness and efficiency of operations. This allowed the Representation to work with donors on a long-term programme implementation strategy, plan sectoral

interventions in a coordinated way, use an integrated funding approach, report progress to donors using one consolidated report and holistically evaluate the impact of the programme in the field. At the same time, this approach brought several challenges, including: (i) donors dissatisfaction with the lack of detail provided in the consolidated progress report; (ii) initial difficulty of corporate systems to reflect such an approach; and (iii) difficulties in aligning the programme and its shared cost with the intermittent flow of funds from projects with varying duration. To address these challenges, OIG suggested that the concept of a programme approach, including pooled funds, consolidated reporting and a single workplan, should be introduced in the CPF as FAO's primary implementation approach. The Representation should ensure that donors and the government agree on the key operational elements. Moreover, the Representation needs to use corporate systems more purposefully to manage, record and report on its operations.

In the area of Finance and Administration the Representation was also rated Partially Satisfactory. It applies good practice in procurement planning, vendor identification, monitoring of conditions on delivery and quality of procured items and services, (including the application of liquidated damages) and documenting suppliers' performance. In addition, the Compliance Unit applies a broadly commended practice within the development community in the country for the verification of FAO's cash based interventions. However, the FAOR needs to ensure the Administrative Unit consistently adheres to FAO policies and procedures when carrying out administrative processes. OIG noted, in general, that Representation staff feel it is permissible to circumvent established rules and regulations in order to accomplish an urgent task in a difficult operating environment without fully appreciating the substance and relevance of the rule. Areas for improvement in administration included:

- scrutinizing LoA budgets when the same Implementing Partners are hired for several interventions;
- improving quality of records contained in GRMS;
- developing an HR strategy aligned with the future programme's expected volume;
- improving staff selection in terms of transparency and competitiveness; and
- revising Budget Holder (BH) sub-delegation of authority, and enhancing supervision and approval for transactions to improve accountability for payments and advances. OIG particularly wishes to highlight that the Representation should comply with FAO's rules on issuing and processing prepayments and their subsequent clearance. The Representation created its own practice, which is not in full compliance with the Organization's rules, complicates monitoring by CSF and may facilitate the misuse of funds.

The review raised 13 areas for action and 20 compliance issues to address the identified weaknesses and deficiencies. The FAOR agreed with the recommended actions and has already initiated corrective measures.

AUD 0616 – Comprehensive Country Review of the FAO Representation in Uganda

Governance, Accountability and Internal Control System was assessed as Satisfactory. Main areas for improvement were identifying longer-term funding for core administrative functions and holding regular staff meetings.

Programme and Operations was assessed as Satisfactory. The FAOR needs to ensure that the plans for resource mobilization, communication and performance monitoring are implemented and monitored. The management and monitoring of project reporting to donors requires improvement with consistently late reporting being cited as a source of dissatisfaction by key donors.

Finance and Administration was assessed as Satisfactory overall. With the arrival of the A/FAOR Administration, Logistics Assistant, International Procurement Officer and Operation Officer in 2014 and 2015, controls, documentation and filing were strengthened. However, controls on human resources, petty cash, inventory, operational cash advances and bank reconciliations still require closer monitoring.

The review raised nine areas for action and 25 compliance issues to address the identified weaknesses and deficiencies. The FAOR has already initiated corrective measures.

AUD 0716 - High Level Review of Management of Risks of Financial Fraud and other Corrupt Practices in FAO

OIG carried out a high level review of risks of financial fraud and other corrupt practices in FAO and mitigating actions taken. The review's objective was to synthesize and report the results of the recent high level and detailed reviews performed by OIG, the Joint Inspection Unit (JIU) and other external parties which provide a benchmark and roadmap for further efforts by FAO to address such risks.

As is any other organization, FAO is subject to fraud risks. The value of amounts identified as having been lost by FAO to fraud in recent biennia is not significant in relation to total expenditure. This low level may partly be attributed to its business model, though considering studies quoted by the JIU in its current review of fraud prevention, detection and response in the UN System, it is most likely also due to the under-reporting of fraud.

Anti-fraud measures support FAO's delivery on its critical areas of performance, particularly the safeguarding of resources against fraud, damage and harm, theft and loss (protection). Additionally, stakeholder expectations for FAO and other UN organizations to prevent fraud and recover losses when it happens is at a historic high. Failure by FAO to keep pace with best practice which exemplifies the "zero-tolerance" philosophy espoused in its anti-fraud policy could have serious reputational and financial consequences.

While there is no way to prevent fraud completely, there are ways to minimize the risks and increase the chances of detection. It is only through diligent and ongoing efforts that an organization can protect itself against significant acts of fraud.

Based on its review, OIG has concluded that FAO's approach to fraud risk management is fragmentary and that there is insufficient evidence to form a view on the effectiveness of existing controls. On the positive side, Management have communicated their vision of zero-tolerance to fraud and there is a solid regulatory framework to support this, starting with FAO's policy against fraud and other corrupt practices. However, ownership of the fraud policy has not been clearly defined and this may be a constraint to its effective implementation, notwithstanding the responsibility of the FAO units who own specific policies (be it in HR, financial, administrative or operational areas) for fraud-proofing their policies and ensuring that the general principles and specific requirements of AC 2015/08 are incorporated into their policies. For example, a fraud management strategy is lacking, and this could be developed or coordinated by a unit owning/responsible for the fraud policy. A risk assessment has not taken place, and this unit could coordinate this process, providing support and guidance to the units involved in it. Awareness and training needs to be delivered but this is piecemeal and insufficient. There are also effective tools to report fraud, the investigation function has been externally assessed as meeting international standards as well as FAO's own internal standards, and investigations lead to disciplinary action when warranted. While more could be done to raise awareness on fraud, this has been recognized and improvements have been identified. While there is a suite of internal controls to tackle fraud, these are not always the result of a sound process of focussed risk assessment. It is possible that some fraud risks might be over controlled, while others are under controlled.

OIG believes that priority should be assigned to ensure that a comprehensive ERM programme in the Organization is finalized which includes a robust anti-fraud element.

Assessment Summary

The following table summarizes OIG's assessment of FAO's consistency against best practices in the different sub-areas covered in the review (developed based on the COSO model).

COSO Component	OIG's summary assessment
I- Control Environment:	
I.1 Commitment to integrity and ethical values	■ Generally Consistent
I.2 Establish structure, authority and responsibility	▲ Partially Consistent
I.3 Enforce accountability	▲ Partially Consistent
II- Risk Assessment	▲ Partially Consistent
III- Control Activities:	
III.1 Select, Develop and Deploy Controls	▲ Partially Consistent
III.2 Investigate allegations and apply sanctions	■ Generally Consistent
IV- Information and Communication:	
IV.1 Employee and third-party awareness	▲ Partially Consistent
IV.2 Establish communication channels	▲ Partially Consistent
IV.3 Communication with resource partners	▲ Partially Consistent
V- Monitoring	▲ Partially Consistent

Legend for OIG's assessment:

• Generally Consistent: FAO policies, procedures and practices meet the majority of requirements.

• Partially Consistent: FAO policies, procedures and practices meet some requirements but there is room for improvement to ensure a more effective performance vis-a-vis some requirements.

• Not consistent: FAO policies, procedures and practices do not meet the majority of requirements.

AUD 0816 - Commissary Physical Inventory Count 2015

OIG performed an inventory count of the Commissary at year-end to obtain audit evidence to assist the External Auditor in evaluating the existence and completeness of the inventory balance as at 31 December 2015. Inventory is one of the most material assets in the Commissary's financial statements. As at 31 December 2015, it amounted to EUR 1 946 318, representing approximately 50.62 percent of the Commissary's total assets of EUR 3 844 738, as presented in the financial statements 2015.

Based on this observation, and independent sample testing, OIG found the Commissary has established and implemented adequate procedures for completing the year-end count. OIG's sample test count did not reveal any material differences to those of the Commissary.

AUD 0916 - Compliance with IT policies: hiring of IT-related NSHR

OIG reviewed compliance by FAO units with aspects of DG Bulletin (DGB) 2013/72 "Accountability for FAO's Information Technology" and Administrative Circular 2015/20 "FAO'S Information Technology Products and Instruments". Specifically, OIG reviewed compliance with the provision

that requires FAO units who want to hire non-staff human resources (NSHR) to perform Information Technology (IT)-related work, to request and obtain approval from the Information Technology Division (CIO) a priori.

In most cases the hiring units indicated that they were not aware that the scope of the policy applied to their specific situation. In a few other cases, hiring units acknowledged that they were not aware of the policies altogether. OIG did not find evidence that hiring units deliberately sought to circumvent the policy in the cases identified. However, considering that 32 of the 53 cases of non-compliance identified related to contracts or contract extensions issued after the publication of AC 2015/20, which clarified the original DGB, OIG believes that the reasons provided by several units for not requesting CIO's approval were weak.

In view of the relatively high number of cases of non-compliance and the consistent replies received from the different FAO units approached, OIG believes that one of the reasons for the non-compliance is the lack of understanding of the scope of application of the policy, especially as regards a number of specific situations discussed in the report.

The report includes two agreed actions aimed at increasing general awareness and understanding of the policy as well as adherence to it.

AUD 1016 – Management, Finance and Administration Review (Desk Review): FAO Representation in Liberia

For the two areas covered in this audit, the overall assessment is Major Improvement Needed for the area of Governance, Accountability and Internal Control; and Unsatisfactory for the area of Finance and Administration management.

This audit was conducted remotely, without OIG travelling to the country and as such was a pilot exercise to determine the validity of the methodology used. One of the root causes for weaknesses in the internal control system was that for some periods under the audit review the Representation was managed by interim FAORs and proper supervision and monitoring was weak, in addition to increased activities and challenges related to the Ebola emergency. The Representation needs to accelerate progress in enhancing its internal control system, and in particular overall filing for supporting transactions.

The area of Governance, Accountability and Internal Control System was assessed as Major Improvement Needed. The areas for improvement in this section include: (i) A CPF for 2016-19 has not yet been prepared due to the Ebola outbreak and changes within the Ministry of Agriculture. The Representation uses the 2012-15 CPF as a programme framework, which may be outdated and no longer reflect country priorities. Monitoring arrangements have not been effective, with no Steering Committee meeting; (ii) several projects have NTE dates which were exceeded years ago, but have not yet been closed due to the lack of a terminal report or budget overspending. The overall field programme is decreasing and the Representation requires support from RAF and headquarters for its resource mobilization initiatives; and (iii) OIG's desk review showed that transactions in substance were not supported which indicates that the control environment in the Representation was weak and basic controls were not followed. The current FAOR is addressing these weaknesses.

The area of Finance and Administration was assessed as Unsatisfactory. The areas of Procurement, Assets and HR need particular attention. In addition, filing of documentation is not adequate and may lead to problems with any verification and evaluation from donors, including EU funds. There is no procurement strategy and planning to meet the Representation's operational needs. The procurement function is shared between different staff. LoA management is weak including filing for the selection and monitoring of Service Providers. OIG cannot assess the adequacy of assets and inventory management controls as we did not receive supporting documents for the sample of active and retired assets and inventory. The Representation does not have a clear view on how to meet its operational needs with its current staffing structure as it has not carried out an analysis of operational versus

staffing needs. Documentation for the recruitment, salary rates and performance of most of sampled NSHR was not adequate or was absent. Not all supporting documentation was provided for invoices. In addition vendor records were incomplete, supporting documents for adjustments did not reflect the real reason, large numbers of prepayments were issued to the same individual and some were used for direct procurement or hiring local personnel without proper contracts. A large number of salary advances without SSC approval indicate deviation from Budget Holder (BH) delegated authority.

This audit report includes 12 Agreed Actions and raises 27 Compliance Issues to address the identified weaknesses and deficiencies. The FAOR agreed to initiate corrective measures to address them.

AUD 1116 – Capping Report on Governance, Accountability and Internal Control System in Country Office Audits 2015

This report inaugurates OIG's periodic summary of audit findings related to Governance, Accountability and Internal Control System (G&A) issues in Country Offices (COs), following more systematic audit coverage in these areas beginning in 2015. It assesses, at an aggregate-level, the extent to which COs have applied G&A-related controls, examines the causes for deficiencies, determines if action is needed at a corporate level and establishes a benchmark for future assessment of progress. This report parallels the separate Capping Reports prepared for Programme and Operations (P&O) and Financial Management and Administration (F&A) issues in COs.

For the G&A assessment OIG identified 11 control criteria in consultation with FAO management. They are organized under four broad headings: (1) governance; (2) risk management; (3) accountability and internal control system; and (4) data quality.

G&A reviews were undertaken at 12 COs during 2015. Overall, nine COs (75 percent) were rated as Satisfactory and three (25 percent) Partially Satisfactory. While this outcome is predominantly positive, it is important to note that the corporate guidance and expectations related to G&A have evolved substantially in recent years.

In general, OIG identified a number of G&A-related areas that need corporate level attention and improvement, including:

establishment of measurable and agreed objectives for COs and FAORs to enable results-focused performance management;

alignment of CO structures and resources with field programme requirements; including the establishment of key functions such as monitoring and evaluation, resource mobilization, and communications, where necessary;

commensurate and frontloaded funding of COs, in particular for those that are emerging or restructuring their field programmes;

arrangements and requirements to regularly assess, report and escalate risks;

attitude towards the control environment and awareness about the substance of controls;

distribution of tasks and workload, and segregation of duties at the COs, under different staffing scenarios; and

accuracy and completeness of data inserted into the Organization's Management Information Systems.

FAO management is aware of many of the above deficiencies at the CO level and there are several pertinent ongoing Agreed Actions from prior P&O and F&A Capping Reports which are key to addressing them. These Agreed Actions have therefore been incorporated into this report, together with management's current action plans. They are complemented by two new Agreed Actions and a number of additional OIG conclusions.

AUD 1216 – Finance and Administration Review of the FAO Representation in Guinea

The overall assessment of the Representation is Satisfactory for both Governance, Accountability and Internal Control as well as for Finance and Administration.

The area of Governance, Accountability and Internal Control was assessed as Satisfactory. The Representation's staffing structure is mostly adequate to manage the current and projected field programme portfolio. However, according to the FAOR a dedicated procurement assistant is needed to duly discharge the procurement actions required by the increasing activities. Staff roles and responsibilities are clearly assigned and communicated. In 2014 and 2015 there were two main challenges in the country: (i) the Ebola Crisis and (ii) political uncertainty. Despite the pervasiveness of these country level risks, the Representation should not lose sight of other risks that more specifically relate to FAO operations. The FAOR has agreed to take action in this regard. Recently, following a MOSS review, the Representation has moved to new premises to reduce the inherent risks at the previous facility which was no longer found to be adequate for the Representation to conduct its mission in Guinea. Management has been made aware of the IT issues and has already undertaken steps to improve internet service provision.

The area of Finance and Administration was overall assessed as Satisfactory, except in the area of Human Resources. OIG noted that files are not always diligently completed and kept up-to-date. The Representation also lacks regular performance assessments and staff development plans, and leave requests are not systematically monitored. In the area of Procurement and Letters of Agreement, OIG noted good practices with adequate contractual formats and proper monitoring.

This audit report includes one Agreed Actions and raises 8 Compliance Issues to address the identified weaknesses and deficiencies. The FAOR agreed to initiate corrective measures to address them.

AUD 1316 - Review of Education Grant

OIG completed a review of Education Grant (EG) entitlement in FAO, focusing on the internal controls in place governing the administration of EG for three scholastic years (2012/2013, 2013/2014 and 2014/2015). EG disbursements average USD 15 million per year.

The main objective of the review was to assess the effectiveness and efficiency of the procedures in place for the administration of the EG entitlement and related internal controls, to ensure compliance with rules and regulations, consistent practice as well as to prevent fraud. The review did not assess policy aspects, which are not under FAO's control.

At FAO, EG administration is governed by MS 301 (Staff Regulations) and MS 310 (Education Grant). The Office of Human Resources (OHR) is the business process owner for EG, while the Shared Service Centre hubs process EG transactions.

OIG found that the Shared Service Centre (SSC) hubs have implemented adequate segregation of duties for EG-related processes (advances and claims); and payments were properly calculated, approved and in line with maximum EG monetary thresholds. However, OIG also found two main control and policy issues that need strengthening to ensure better adherence to the policies and improved performance. Specifically:

-        Ineligible expenses are reimbursed: the SSC reimburses expenses which, in principle, are not eligible for reimbursement under EG policies (i.e. non-mandatory trips and after-school activities) due to the lack of clear guidance; and

-        EG advances are granted without any supporting documentation, which often results in providing larger than necessary advances creating unnecessary administrative burdens to track and obtain reimbursements.

Other areas where improvement could be made are:

-        implementing a tracking system to track and monitor the status of EG claims to ensure more effective and timely tracking of outstanding advances;

-        clarifying the periods of retention for original records and ensuring staff members adhere to these;

-        improving filing of records and the establishment of cost-effective fraud-specific preventive and detective controls such as spot checks and independent confirmation of educational expenses.

Based on its review, OIG concludes that Organizational performance vis-à-vis the established processes, policies and best practices needs some improvement. This report includes eight Agreed Actions to improve the administration of EG entitlement.

AUD 1416 - Investment Management

OIG with the support of KPMG Advisory S.p.A. completed a review of FAO's Investment Management processes. The objective of the review was to assess the risk management, monitoring and governance processes of FAO's investments to ensure that controls are properly designed and functioning effectively.

FAO has established a solid framework to manage its investments. Stewarded by the oversight of an internal Investment Committee as well as an Investment Advisory Committee made up of external experts, FAO has both preserved capital as well as generated returns in line with the markets over the years.

FAO has clearly and explicitly defined the overall objectives on its investments and has issued policies (strategies for short-term and long-term investments) to aid the achievement of these objectives. In order to help ensure the effective management of investments without the excessive costs of doing so internally, much of FAO's investments are managed externally by a diverse array of professional asset managers. Each external manager is provided with investment guidelines that stipulate investment objective and FAO risk appetite. The performance and activities of these external managers are then monitored and supervised by the Corporate Services Finance and Investments Unit (CSFT).

The report identifies 12 Agreed Actions to help improve FAO's investment activities. In OIG's view, management should give priority to the following:

(i) CSF and CSAP, in consultation with LEG, to perform an in-depth review of the current contracts in place in order to determine whether retendering or re-execution of agreements should take place.

(ii) CSF to ensure that the payment process of the external investment managers is performed by Accounts Payable according to FAO's standard procedures.

(iii) CSF, with the support of CSAP, where necessary, to issue a specific procedure/ operating instructions to regulate the following activities: selection and management of external managers and advisors, monitoring of the external managers, due diligence of the external managers, compliance visits (including checklist of issues to review).

As part of the review, OIG also verified the status of the recommendations included in the External Auditor's (EAUD) 2013 Management Letter (ML) "Review of Investments Operations of the FAO" (April 2013). OIG found that a number of recommendations made by EAUD, which had been reported as implemented by FAO, were in fact still outstanding.

AUD 1516 – Strategic Framework at RLC

OIG assessed the state of the implementation of the Strategic Framework at the Regional Office for Latin America and the Caribbean (RLC) as 'Satisfactory' as at late May 2016.

The review examined the five broad areas comprising 16 components. The underlying presumption of OIG's assessment was that the Office's progress on the implementation of these components would be at an early stage, depending on the development grade and OIG assessed the state of the implementation of the Strategic Framework at the Regional Office for Latin America and the Caribbean (RLC) as 'Satisfactory' as at late May 2016.

The Governance Arrangements area was assessed as Some Improvement Needed. RLC management has been proactive in implementing the new Strategic Framework and the new governance arrangements have been put in place in accordance with corporate guidance. The integration of SROs and COs is actively promoted and facilitated by the RI Delivery and CO Support Teams. RLC officers expressed an important concern relating to a perceived reduction in the technical capacity of the Office. It is therefore recommended that the Office performs a technical stock take to identify gaps and formulate a plan to fill them, taking into consideration of the support that can be drawn from headquarters technical units and the SROs. It should also analyse the mix of the Region's planned outputs and the resulting implications for technical requirements and funding of the different SP teams.

The Work Planning area was assessed as Some Improvement Needed. RLC's participation in the work planning process for the 2016-17 biennium is in line with corporate instructions. The planning process for the development of milestones and service agreements between the RI Delivery Managers and the SP Focal Points in the RO and the SP teams in headquarters was considered to have been effective. Currently FAORs are often not fully aware of what services and support FAO can offer in the context of its Strategic Programmes. This may complicate negotiations with government and development of new CPFs as the full span of FAO's competencies, as well as its capacity to mobilize partnerships and South-South-Cooperation, might not be fully utilized. Moreover, there is a considerable mismatch among the outputs identified through the target setting process in mid-2015 compared to the outputs identified in the Country Programming Frameworks (CPFs) and Service Level Agreements (SLAs).

The area of Integration with Office Operations and Workplans was assessed as Satisfactory. RLC has made good progress in the LAC region in integrating operations, programmes and projects within the overall Strategic Framework. The technical support requirements, which COs have identified so far to achieve output commitments, have been assigned among SROs, RO and headquarters units to be acted upon. The implementation of the Strategic Framework has fostered cross-cutting cooperation among the RI Delivery Teams and SP Focal Points and other staff and functions of the RO, as well as with the SROs and COs.

The area of Monitoring was assessed as Satisfactory. RLC has established and communicated staff responsibilities for monitoring. The monitoring concept and workflow for the Strategic Framework are clearly outlined by the Office. However, there should be a more systematic monitoring of SLAs to ensure that the services which have been agreed with the SPLs are actually delivered.

The area of Communicating and Reporting Results was assessed as Satisfactory. RLC's communication and reporting of results, both at the regional level and the corporate level, is adequate and makes purposeful use of the available corporate monitoring systems.

The report contains four actions that RLC management agreed to implement. The report also notes five areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO.

AUD 1616 – Strategic Framework at RAP

OIG assessed the state of implementation of the Strategic Framework at the Regional Office for Asia and the Pacific (RAP) as 'Some Improvement Needed' as at early April 2016.

The review examined five broad areas, comprising 16 components. The underlying presumption of OIG's assessment was that the Office's progress on the implementation of these components would be at an early stage, depending on the development grade and availability of the related corporate guidance, support, timetables, resources and systems. To take this into account, OIG developed a maturity model as a benchmark for implementation progress on the individual components.[4] This model establishes that the maturity of the components at the time of the review could reasonably be expected to be at the starting or building stages (stages 1 and 2) along a spectrum of four stages, which eventually culminate in full optimization of the Framework.

The area of Governance Arrangements was assessed as Some Improvement Needed. RAP management identified key building blocks for implementing the Strategic Framework shortly after the arrival of the new ADG in November 2015. By the end of March 2016, RAP created a Strategic Programme Coordination Group (SPCG), restructured the Office, and discussed Framework implementation issues with the FAORs in the Region. Additional actions, generally part of the planned building blocks scheduled for completion by June 2016, were envisaged, including capacity building of the SPCG to become a fully functioning unit, integration of Framework responsibilities throughout the Office, and mitigation of the impact of diverting technical staff for Framework functions. RAP has not combined the building blocks into a formal change management plan and prefers a "learning-by-doing" approach.

RAP needs to assess to what extent limited and reassigned resources (for human capacity and funding) may affect its ability both to implement the Framework and meet its mandate for supporting the Region's needs. This should be done in consideration of the support that can be drawn from headquarters technical units.

Headquarters' instructions and guidance on Strategic Framework implementation by the DOs are under development and therefore not conclusive and are regularly supplemented by additional elements and requirements. In addition, the Organization has not yet described its vision for full implementation of the Framework. This uncertainty affects RAP's ability to implement the Framework.

The area of Work Planning was assessed as Major Improvement Needed. RAP met a key milestone by completing and submitting Service Level Agreements (SLAs) to the five SPLs in headquarters by the early February 2016 deadline. Overall, RAP adopted a learning-by-doing approach for 2016 work planning, which involved coordination among the SPLs, the newly-formed RAP SPCG, and RAP technical group leaders. Work planning took place during a period of emerging guidance, RAP restructuring, and development of the SPCG role in the process. RAP is planning capacity building of the SPCG to prepare for future work planning activities. The SPCG did not perform validation exercises for the 2016 plan. RAP is currently working with headquarters units to expand the RIs and better address the new regional priorities adopted by the 2016 Asia Pacific Regional Conference.

The area of Integration with Office Operations and Workplans was assessed as Some Improvement Needed. RAP SPCG team members are actively engaged in project clearance in the planning phases,

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[4] A maturity model is a business tool used to assess an entity or process. In the case of this review, it gauges the actual state of implementation ('maturity') of the Strategic Framework at the office under review against an expected state and helps identify areas for improvement. It consists of four stages: (1) Initial (Start); (2) Managed (Build); (3) Measured & Controlled (Consolidate); and (4) Pervasive (Grow).

as required by the new Project Cycle guidance. Following the OIG mission, additional steps were taken to ensure that RAP aligns existing projects with the Strategic Framework.

The area of Monitoring was assessed as Major Improvement Needed. With impending deadlines for monitoring requirements, RAP needs to:

clarify the SPCG's responsibility and process for monitoring outputs and achievements, and

capture the CPF implementation status from CO Annual Reports in a monitoring format.

RAP should consult with OSP about appropriate tools and mechanisms for capturing and monitoring results in the Region.

The area of Communicating and Reporting Results was assessed as Some Improvement Needed. RAP has taken initial steps towards communication of results at the regional level. With the recently released Dashboard by OSP, the reporting process has been further streamlined. RAP does not yet have a fully established culture of results-based management. Targets should be set realistically and deviations should be analysed systematically to inform future decision taking.

The report contains seven actions that RAP management agreed to implement, and has already made considerable progresses in doing so following the review mission. The report also notes four areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO

AUD 1716 – Strategic Framework at RAF

OIG assessed the state of implementation of the FAO Strategic Framework at the Regional Office for Africa (RAF) as 'Some Improvement Needed'.

The review examined five broad areas, comprising 16 components. The underlying presumption of OIG's assessment was that the Office's progress on implementation of these components would be at an early stage, depending on the development grade and availability of the related corporate guidance, support, timetables, resources and systems. To take this into account, OIG developed a maturity model as a benchmark for implementation progress on the individual components.5 This model establishes that the maturity of the components at the time of the review could reasonably be expected to be at the starting or building stages (stages 1 and 2) along a spectrum of four stages, which eventually culminate in full optimization of the Framework.

The area of Governance Arrangements was assessed as Some Improvement Needed. RAF management has been proactive in the implementation of the new Strategic Framework and governance arrangements have been put in place in accordance with the corporate guidelines. Change management is recognized as a significant challenge. Although it is being managed by means of an adequate level of change management activities and increased communication, a change management strategy should be implemented to assist in the planning and monitoring of these activities.

The structure, role and responsibilities for the new Strategic Framework implementation have been established and communicated to all staff. Staff members with the relevant experience and technical knowledge have been appointed to the required roles and teams, and an improved integration of the SROs and COs is now in progress by means of the RI Delivery Teams and CO Support Teams.

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[5] A maturity model is a business tool used to assess an entity or process. In the case of this review, it gauges the actual state of implementation ('maturity') of the Strategic Framework at the office under review against an expected state and helps identify areas for improvement. It consists of four stages: (1) Initial (Start); (2) Managed (Build); (3) Measured & Controlled (Consolidate); and (4) Pervasive (Grow).

The principal concern relates to the technical capacity of the Office resulting from technical officers having been allocated to process roles without backfilling of their technical roles and gaps in the technical coverage. A technical stock take should be carried out to identify gaps and plan for their coverage, or the use of other methods to mitigate the impact. This should be done in consideration of the support that can be drawn from headquarters technical units and the SROs in the Region.

The area of Work Planning was assessed as Some Improvement Needed. Participation in the work planning process for the 2016-17 biennium was in line with corporate instructions. The planning for the development of milestones and service agreements between the RI Delivery Managers and the SP focal points in the RO and the SPLs in headquarters was considered by the RO to have been effective. However, it is noted that budget allocations were planned without the participation of the RI Delivery Managers and SP Focal Points for whom the budget allocations are consequently not considered transparent. OIG recommends that the next budget planning cycle be more consultative. This will be further analysed in the year-end Capping Report.

The area of Integration with Office Operations and Workplans was assessed as Some Improvement Needed. The Office has a full mapping of the CO projects/activities to the SP outputs. The CO support teams are developing integrated workplans for the RIs. The updated project cycle has been implemented in the Region, but monitoring of projects during their implementation using the FPSN housekeeping data from FPMIS reveals a high rate of project issues of overspend, low rates of delivery, cash calls required and late project closure. RAF management has given an increased level of attention to these issues, but it is recommended to proactively monitor projects using the systems and structures in place as opposed to the use of a periodic clean up approach directed by senior management. RAF management agreed to implement this action.

The area of Monitoring was assessed as Satisfactory. The monitoring of milestones was carried out in accordance with corporate instructions for the first submission of monitoring data as at end-April 2016. The RI Delivery Managers and SP Focal points updated the status of the milestones in PIRES. This was the first time the monitoring exercise had been performed. No major difficulties were encountered. However, it was noted that there was a lack of clarity regarding the year-end monitoring process when both the RO and the COs will report progress against milestones/targets. This will be further analysed in the year-end Capping Report.

The area of Communicating and Reporting Results was assessed as Satisfactory. The communication of results by RAF at both the regional level and the corporate level using the corporate monitoring systems is adequate.

The report contains five actions that RAF management have agreed to implement to keep implementation on track with the evolution of the Strategic Framework. The report also notes three areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO.

AUD 1816 – Comprehensive Country Review: FAO Representation in Senegal

The area of Governance, Accountability and Internal Control System was assessed as Satisfactory. The main issue relates to a structural underfunding for the level of management, technical and administrative activities carried out which increases the Representation's risk profile. Against the backdrop of OIG's regular findings in its periodic Capping Reports to align Country Office structures and resources with field programme requirements and to frontload their funding, it is recommended that the FAOR Network Coordinator at RAF sends a mission to review the Representation's resource requirements, including the REOWA team.

The area of Programme and Operations was assessed as Satisfactory. Liaison, advocacy, communication and field programme and operations are adequately and effectively managed. External partners considered the Representation proactive and innovative. Progress can be demonstrated on

CPF implementation and the implementation of the field programme is well managed. A resource mobilization strategy and plan is in place.

The area of Finance and Administration was assessed as Major Improvement Needed. This was primarily due to the failure to provide full supporting documentation for the procurement and LoA transactions selected for audit due to the inability to locate it in the filing system. Where supporting documentation was supplied, it generally showed good application of controls. In addition, weaknesses were noted with regard to performance assessments and personnel file documentation in Human Resources management and with regard to application of DSA policy and the recording of prepayments in Local Travel management.

This audit report includes four Agreed Actions and raises 11 Compliance Issues to address the identified weaknesses and deficiencies. The FAOR agreed to initiate corrective measures to address them.

AUD 1916 – Strategic Framework at REU

OIG assessed the state of the implementation of the Strategic Framework at the Regional Office for Europe and Central Asia (REU) as 'Some Improvement Needed' as at late June 2016.

The review examined five broad areas, comprising 16 components. The underlying presumption of OIG's assessment was that the Office's progress on the implementation of these components would be at an early stage, depending on the development grade and availability of the related corporate guidance, support, timetables, resources and systems. To take this into account, OIG developed a maturity model as a benchmark for implementation progress on the individual components.[6] This model establishes that the maturity of the components at the time of the review could reasonably be expected to be at the starting or building stages (stages 1 and 2) along a spectrum of four stages, which eventually culminate in full optimization of the Framework.

The area of Governance Arrangements was assessed as Some Improvement Needed. REU senior management has been proactive in implementing the new Strategic Framework. Governance arrangements have been put in place in accordance with the corporate guidance. Change management is recognized as a significant challenge and is being managed by an adequate level of change management activities and increased communication. The structure, roles and responsibilities for the new Strategic Framework implementation have been established and communicated to staff.

Key concerns expressed relate to a reduction in the technical capacity of the Office, resulting from technical officers having been assigned Strategic Framework implementation duties. REU is in the process of developing an integrated planning and monitoring tool to build on and complement the information available in the corporate systems for regional management purposes. REU should further analyse the mix of planned outputs in the Region and the resulting implications for the composition and funding of its Strategic Programme (SP) teams.

The area of Work Planning was assessed as Some Improvement Needed. REU's participation in the work planning process for the 2016-17 biennium is in line with corporate instructions. The principal contribution of the RI Delivery Managers and SP Focal Points to the planning process consisted of the development of Service Level Agreements (SLAs) between REU and the SP teams at headquarters and the identification of the associated milestones (products/services). However, there was only limited, specific validation by REU officers of the targets set by the individual COs in the Region.

The area of Integration with Office Operations and Workplans was assessed as Some Improvement Needed. REU uses the updated Project Cycle as guidance for project operations. REU officers

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[6] A maturity model is a business tool used to assess an entity or process. In the case of this review, it gauges the actual state of implementation ('maturity') of the Strategic Framework at the office under review against an expected state and helps identify areas for improvement. It consists of four stages: (1) Initial (Start); (2) Managed (Build); (3) Measured & Controlled (Consolidate); and (4) Pervasive (Grow).

consider the new guidance to have a positive effect on the quality of project design and strategic alignment, but it is also creating an additional heavy workload. REU should establish a more systematic approach to the identification of technical support needs for the RIs and CPFs and specifically assign the resulting responsibilities to REU, SEC or headquarters officers to strengthen accountability.

The area of Monitoring was assessed as Satisfactory. REU is using corporate systems (FPMIS, GRMS, iMIS, etc.) for monitoring purposes and has started to develop a systematic process and tool for operational planning and monitoring. The Office has also begun developing action plans for selected COs. A broader use of such action plans would facilitate the coordination and validation of technical support to COs and enable better control over the achievement of the agreed outputs.

The area of Communicating and Reporting Results was assessed as Satisfactory. Communication and reporting of results, both at the regional and corporate level are adequate and REU makes purposeful use of the available corporate systems. However, while RI activities and results have been integrated into the Office's communication activities, REU should also consider a comprehensive update of its communication strategy to incorporate Strategic Framework requirements.

The report contains seven actions that REU management agreed to implement. The report also notes five areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO.

AUD 2016 – Comprehensive Country Review: FAO Representation in Jordan

The area of Governance, Accountability and Internal Control System was assessed as Major Improvement Needed. The FAOR is proactive in carrying out the Representation's role, but is heavily constrained by the lack of RP funding to provide even basic administration functions and running costs. This affects the stability of the Representation, the continuity of operations, and represents a high risk in terms of its delivery capacity and reputation as being a reliable partner for the government and donors. Against this background, it is noteworthy that the Representation was diligent in addressing issues identified by the previous audit.

In the absence of other sources of funding, all personnel (except for the FAOR) and Representation running costs are de facto charged to the projects. This increases the proportion of direct overhead and operational costs for projects and may affect FAO's image by appearing to be overly expensive in running projects and using project budgets on ineligible expenditure.

FAO's Jordan and Iraq offices, both located in Amman, have initiated the establishment of a common Management Support Unit (MSU) for the purpose of addressing the issue of resource constraints by cost sharing. However the MSU is not yet fully functional.

The area of Programme and Operations was assessed as Some Improvement Needed. The Representation has recently prepared a second generation CPF (2016-2020), which is awaiting government endorsement. It is linked with government priorities and FAO's Regional Initiatives and Strategic Framework. However, the limited resources at the FAOR's disposal are not sufficient to develop a longer-term approach to advocacy, communications and resource mobilization, thus the CPF and RM targets may not be attainable.

The FAOR demonstrated an in-depth knowledge of ongoing projects as well as those in the pipeline. However, he was less involved in some supra-national projects. In general, the Project Cycle for project approval is followed, however, Representation management mentioned that the approval process is very time consuming in comparison to other UN agencies and this had been noted by external stakeholders.

Some ongoing projects were experiencing delays relative to their workplans. OIG considers the country annual workplan and monitoring framework to be an example of good practice.

The area of Finance and Administration was assessed as Major Improvement Needed. OIG recognizes that the Representation encounters significant challenges due to the lack of resources and capacity. The Representation has achieved progress in establishing key finance and administration functions (finance, procurement, filing, HR, etc.) from April 2015. Most incidents of non-compliance are a consequence of these constraints. For procurement: (i) there was no dedicated buyer, (ii) the filing system was incomplete, (iii) supporting documents on selection of bidders were lacking, and (iv) rules were not complied with in many instances. HR files did not contain key documents on the selection and evaluation of personnel. However, OIG noted progress had been made in this regard since April 2016. The Representation improved on assets reconciliation. The leave system is considered an example of good practice.

The report contains 13 actions that Office management agreed to implement. In addition, OIG raised seven Compliance Issues to address weaknesses identified.

AUD 2116 – Comprehensive Country Review: FAO Representation in Madagascar

The area of Governance, Accountability and Internal Control System was assessed as Satisfactory. The principal recommendations related to ensuring there is adequate project management capacity available to manage the implementation of a large field programme.

The area of Programme and Operations was assessed as Satisfactory. Liaison, communication and advocacy activities were carried out in a proactive manner and received a high level of satisfaction from the government and the technical and financial partners. The Representation obtained a good level of visibility in the country and was positioned as the key technical advisor to the government in the food security sector. A major field programme is satisfactorily managed and monitored and the CPF largely implemented.

Finance and Administration was assessed as Satisfactory noting a high level of compliance with rules and policies and documentation requirements.

The report contains five actions that Office management agreed to implement. In addition, OIG raised three Compliance Issues to address weaknesses identified.

AUD 2216 – Strategic Framework at RNE

OIG assessed the state of the implementation of the Strategic Framework at the Regional Office for the Near East and North Africa (RNE) as 'Some Improvement Needed' as at late May 2016.

The review examined five broad areas, comprising 16 components. The underlying presumption of OIG's assessment was that the Office's progress on the implementation of these components would be at an early stage, depending on the development grade and availability of the related corporate guidance, support, timetables, resources and systems. To take this into account, OIG developed a maturity model as a benchmark for implementation progress on the individual components.[7] This model establishes that the maturity of the components at the time of the review could reasonably be expected to be at the starting or building stages (stages 1 and 2) along a spectrum of four stages, which eventually culminate in full optimization of the Framework.

As a result of the review, the report contains four actions agreed with RNE management to keep implementation on track with the evolution of the Strategic Framework. The report also notes four

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[7] A maturity model is a business tool used to assess an entity or process. In the case of this review, it gauges the actual state of implementation ('maturity') of the Strategic Framework at the office under review against an expected state and helps identify areas for improvement. It consists of four stages: (1) Initial (Start); (2) Managed (Build); (3) Measured & Controlled (Consolidate); and (4) Pervasive (Grow).

areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO.

The area of Governance Arrangements was assessed as Major Improvement Needed. RNE management has a good understanding of Strategic Framework requirements, but still needs to stabilize the new functions and improve the adoption of the related processes. Key Strategic Framework implementation roles need to be permanently assigned and become less amalgamated. In particular, the empowerment of the Strategic Objective (SO) Focal Points needs to be strengthened, including clear funding arrangements. A change management plan and road map would assist in better assessment, planning and monitoring of change management requirements and activities.

RNE officers expressed an important concern relating to a perceived reduction in the Office's core technical support capacity to the Region due to the assignment of Strategic Framework related management duties, compounded by post vacancies. It is therefore recommended that the Office performs a technical stock take to identify gaps and formulate a plan to fill them, taking into consideration the support that can be drawn from headquarters technical units and the SROs.

The area of Work Planning was assessed as Some Improvement Needed. RNE's participation in the work planning process for the 2016-17 biennium is in line with corporate instructions. The development of Service Level Agreements between the RI Delivery Managers and the SP Focal Points in the RO and the SPLs in headquarters was considered to have been an effective process. However, there was only limited, specific validation by RNE officers of the targets set by the individual COs in the Region. A more comprehensive validation of targets and corroboration of an acceptable congruence among outputs, milestones and the technical support available would provide a more tangible level of assurance to RNE management that the combined agreed outputs of all offices are realistic and attainable.

The area of Integration with Office Operations and Workplans was assessed as Some Improvement Needed. The updated project cycle is being used as guidance for project operations and is considered to be improving project quality and strategic alignment. However, there is a need to revise the SLA milestones to ensure that they better represent the activities actually carried out by the RIs and COs.

The area of Monitoring was assessed as Satisfactory. The monitoring of milestones was carried out in accordance with corporate instructions for the first submission of monitoring data as at end-April 2016. The RI Delivery Managers and SP Focal Points updated milestones status in PIRES. However, SLAs should be more systematically monitored to ensure that the services agreed with the SPLs are actually delivered. RNE is in the process of creating a dedicated Monitoring & Evaluation unit.

The area of Communicating and Reporting Results was assessed as Satisfactory. RNE's internal reporting of results (using corporate systems) at both the regional and corporate level is in line with requirements. Communications of RI activities and results have been integrated into the Office's communication activities.

The report contains four actions agreed with RNE management to keep implementation on track with the evolution of the Strategic Framework. The report also notes four areas which will be further analysed in the year-end Capping Report as the issues identified relate to overarching findings beyond the ambit of the individual RO. OIG acknowledges that RNE management demonstrated commitment to the Agreed Actions in this report and has already started their implementation.

AUD 2316 – Yemen Limited Review

The area of Governance, Accountability, and Internal Control System was assessed as Major Improvement Needed. CO management clearly understands the Representation's role and responsibilities and the L3 Response. However, the current level of support from RNE and headquarters does not match their expectations. After evacuation in March 2015, the UN did not take an immediate decision on where to locate the L3 hub, so the individual agencies took their own

decisions on locations. This situation remained for several months and only in July 2015 did FAO obtain two slots in Sanaa for international staff. Meanwhile, the international technical officers previously based in Yemen, operated out of Amman. As the L3 Protocol could not be followed due to lack of slots and the absence of suitable candidates to be deployed on surge, an Emergency Response Management (ERM) team was not deployed to the country nor to the operational hub in Amman.

Moreover, the technical support provided by RNE and headquarters was reportedly not always timely or effective. In general, the combined staffing of the Representation and its operational hub was very limited and not commensurate with L3 Protocol and the field programme activities carried out. Communication between the different decentralized and headquarters units involved was not effective in ensuring implementation of L3-related interventions in a timely manner. Risks outside the ambit and control of Representation management were not always managed in a timely manner or mitigated by higher level units that would have the authority to address them.

The area of Programme and Operations was assessed as Major Improvement Needed. CO management is proactive in communicating and advocating FAO's mandate in the country. An important achievement before the onset of the current crisis consisted of setting up a platform for the coordination of aid for agriculture where all relevant ministries, UN agencies and donors were invited to participate. A key challenge for the Representation is Resource Mobilization in the country as donors are not present on site. Consequently, the Representation depends on assistance from RNE and TCE to attain its RM and CPF targets.

Key areas in operations that deserve management attention are the fragmented workflows for important processes: project management, procurement and LoA management, slow project delivery, weaknesses in beneficiary selection and management of Implementing Partners/Service Providers. The latter is particularly important where FAO fully subcontracts implementation activities while monitoring remotely, as staff are unable to directly access large parts of the country. Management advised that two procurement assistants were recruited in April and August to strengthen the procurement function, and LoA management has been streamlined with the support of an international Operations Officer and training of national staff in the country.

The area of Finance and Administration was assessed as Major Improvement Needed. OIG recognizes that the Representation faces significant challenges due to lack of resources and capacity. Many of the issues of non-compliance are a consequence of these shortcomings. In the case of procurement, key issues related to the lack of a dedicated 'buyer', incomplete filing system, and missing supporting documents on selection of bidders. As regards HR, files did not always contain documents on selection and evaluations of personnel. Moreover, asset and advance management need to be improved. Management commented that changes have already been made to improve the filing system and to address segregation of duties by hiring additional staff and revising ToR.

This report raises 17 actions agreed with management. In addition, OIG raised 23 Compliance Issues to address weaknesses identified.

AUD 2416- Review of the Resource Mobilization Function in FAO

OIG carried out a review of the resource mobilization function in FAO aimed at assessing whether the corporate Resource Mobilization Management Strategy (RMMS), as designed and implemented, is effective in supporting the Organization to achieve its objectives as outlined in the Strategic Framework (SF).

Voluntary contributions account for approximately 61 percent of the total resources required to implement the 2016/2017 Programme of Work and Budget (PWB). FAO has developed a four-year RMMS, which coincides with the current Medium-Term Plans (MTP). The voluntary contributions share of funding for FAO's budget has been steadily rising over the last three biennia and an upward trend is expected to continue in the future. Over the past three years, FAO has gradually increased the level of signed funding agreements with resource partners. Voluntary contributions mobilized in

2014/2015 totalled approximately USD 1.8 billion thus exceeding the biennial Resource Mobilization (RM) target of USD 1.6 billion in the 2014/2015 PWB.

OIG's review of the RM function found that FAO's overall approach to Resource Mobilization was "Satisfactory though some improvements were needed".

Generally, governance arrangements, risk management practices and internal controls established by Senior Management were found to be adequately designed and functioning as planned. A JIU report in 2014 identified RM in FAO as being the most cost-effective in the UN system. In response to the consistent rise in the voluntary contributions share of budget funding, Senior Management has developed a corporate RM policy and strategy, which are systematically implemented and monitored. In addition, Senior Management has taken steps to support the RM function at headquarters, regional and country levels that reinforced coherent and effective implementation of RMMS corporate-wide. Major examples include: assigning specified roles, responsibilities and authorities to key RM actors, incorporating the country RM approach in RMMS, and establishing a corporate policy for collaborating with non-traditional donors such as private sector, donor foundations and civil society organizations.

However, there are three areas that require attention by Senior Management to further enhance the effectiveness and efficiency of RMMS implementation. These are:

(i)   improving accountability of all stakeholders;

(ii)   developing and using a common corporate format for planning global initiatives and regional RM; and

(iii)   bridging capacity gaps at some Decentralized Offices (DOs) which lack adequate human and financial resources, as well as the technical expertise, required to carry out the RM function effectively.

As a result of the review findings, TCS has agreed to implement or coordinate with relevant stakeholders the eight actions contained in this report to address the issues identified. Main priority actions agreed with TCS are:

ensuring that the biennial RM targets are clearly linked with unit targets;

establishing a high-level overview of RM risk management;

developing a corporate approach to RM for regional and global initiatives; and

supporting the Decentralized Offices in filling their RM capacity gaps.

AUD 2516 – Subregional Office for Central Asia: Limited Review of Programme, Operations and Administration

The area of Implementation of the Strategic Framework was assessed as Major Improvement Needed. SEC has begun the process of progressively integrating daily operations with Strategic Framework (SF) requirements and uses corporate systems to plan and report on programme implementation. However, the role of SEC in the Region's SF governance arrangements is not yet clearly established, other than being a technical hub for the Country Offices (COs). Several key SEC initiatives and activities are not reflected in the regional targets (including FTPP/FP and Global Environment Fund (GEF) related projects and the Syrian crisis support). SEC and REU management are aware of these shortcomings and are planning to address them during the midterm review of the 2016-17 PWB.

The area of Governance, Accountability and Internal Control System was assessed as Some Improvement Needed. In the context of Strategic Framework implementation, areas that deserve particular attention include: clarification of the role and authority of SEC and the Subregional

Coordinator (SRC) within the Subregion; involvement of Subregional Technical Officers (STOs) in missions and projects led by the Regional Office (RO) or headquarters; and the integration of the assistance to the Government of Turkey in interventions focused on Syrian refugees into SEC's overall workplan and relevant regional targets in the PWB. The review showed that parts of MS 117 on Regional and Subregional Offices may need to be updated to reflect the current implementation arrangements for SF, in particular leadership, oversight and reporting lines between Regional, Subregional and Country Offices, and the changes in the Organizational set-up to deliver SF in the regions with a more defined role for the Subregional Office.

A gap analysis of the Office's technical capacity and other functions should be conducted to ensure that capacity is sufficient for successful SF implementation in the Subregion.

Compliance with IT and security controls needs to be strengthened.

The area of Programme and Operations was assessed as Some Improvement Needed. SEC is making progress towards the management and monitoring of its field programme and the SRC is well aware of current and pipeline projects. Areas for improvement include clarifying roles, authority and reporting lines for all involved in the implementation of subregional projects (including the Country Offices), defining the project management function, regular reporting on operational delivery and finalizing its monitoring system, which should be based on the corporate systems.

The area of Finance and Administration was assessed as Some Improvement Needed. In general, SEC complies with FAO financial and administrative rules with some areas for improvements in procurement (physical filing of procurement documentation and supplier's performance evaluation), HR management (pay rates and annual leave), and payments (invoice recording and its supporting documentation and account codes).

The report contains five actions agreed upon with SEC management. In addition, OIG raised eight Compliance Issues to address weaknesses identified.

AUD 2616 - Special Review of the FAO Commissary

OIG carried out a special review of the FAO Commissary. FAO Management established the Commissary in 1951 to utilize the headquarters Agreement privilege of importing duty-free goods to entitled staff members and their families. This review assessed the: (i) Commissary's mission and strategy (ii) Commissary business model; and (iii) performance in the Commissary's key operations.

The Commissary's gross sales and operating income have decreased over the past four years, mainly due to the elimination of gas coupon sales and reduction of tobacco sales, which were the two highest gross margin articles. Nevertheless, Commissary management has been successful in maintaining the viability of the Commissary under these conditions and the Commissary has been providing the intended services to entitled persons reasonably well.

Notwithstanding the above, OIG identified five significant areas that impact on the Commissary's performance which require urgent attention by FAO Management as set out below.

Commissary Mission: The Commissary has a generic mandate delineated in FAO Manual Section (MS) 103. However, it lacks a specified and focused mission statement to guide strategic planning, performance and assessment of its operations. This hinders qualitative and quantitative evaluation of Commissary activities.

Business Model: Since 2012 FAO has managed the Commissary based on the partial outsourcing of commissary activities. OIG's review identified other alternative business models, such as full outsourcing and online purchase catalogue that could be considered by FAO. The body of the report include analyses of these alternatives. OIG does not recommend any specific model as all have advantages and disadvantages that Management should weigh. Management should further evaluate

the current business model and explore the feasibility of alternatives to arrive at the best model to achieve a defined Commissary mission.

Governance and Management: The Commissary governance, management and operational framework should have a systematic approach to: (i) developing Specific, Measurable, Achievable, Relevant and Time-bound (SMART) objectives; (ii) determining the capacity and staff-size required for its operations; (iii) establishing periodic workplans; and (iv) monitoring and evaluating performance and outputs.

Strategic Commercial Planning: The Commissary does not have a fully developed strategic commercial planning approach based on demand estimate and customer preferences. This may lead to missed opportunities for sales increase and revenue maximization, which could undermine the Commissary's viability and, therefore, jeopardize its profitability and sustainability.

Procurement and Inventory Management: The procurement and inventory practices at the Commissary do not provide sufficient assurance of transparency and achievement of best value for money and therefore expose the Organization to a risk of fraud.

The report includes seven agreed actions to address the issues identified. The priority actions agreed with Commissary management are:

(i)   developing an updated statement for the Commissary mission;

(ii)   evaluating the existing Commissary business model;

(iii) establishing a structured system for Commissary management

(iv) improving the commercial strategic planning system; and

(v)   addressing the deficiencies in the procurement and stock practices adopted by the Commissary.

AUD 2716 – FAO Representation in Nepal: Comprehensive Country Review

The area of Governance, Accountability and Internal Control System was assessed as Some Improvement Needed. The Representation is in need of an HR strategy and staffing gap analysis to align resources to its programme needs. Other areas for improvement include the fraud prevention plan, which needs to be updated for the country specific risks and needs to be signed by staff. Conflicting access rights in GRMS need to be reviewed and, if necessary, revised. The Representation needs to ensure data accuracy in the corporate systems, and greater accuracy in reporting on controls in the Annual Representation Letter.

The area of Programme and Operations was assessed as Some Improvement Needed. Representation management proactively communicates and advocates FAO's mandate in the country. This is recognized and appreciated by the Government of Nepal, UN agencies and resource partners interviewed. Communication efforts have significantly increased in recent years and OIG considers them an example of good practice. Areas for improvement mentioned by the external stakeholders include: diversification of FAO's programmes, enhanced coordination and advocacy at UN Country Team (UNCT) level in the area of FAO's mandate and communication of success stories for overall advocacy and resource mobilization. Other issues relate to revising resource mobilization targets and developing its gender mainstreaming vision in the upcoming Country Programming Framework (CPF) with performance indicators, against which progress is monitored and reported.

Representation management demonstrated a strong knowledge of existing and pipeline projects. Project management responsibility is clearly assigned within the project team and project review meetings are held regularly. However, there is no M&E function involved in quality assurance at the design and inception phase in the Programme Unit, which affects project design and planning.

Technical support from RAP and headquarters in the form of technical advice and clearances is not always provided in a timely manner.

The area of Finance and Administration was assessed as Some Improvement Needed. OIG recognizes that during the period under review, the Representation had significant challenges due to the earthquake and subsequent border blockade, fuel shortages and other scarcities. These constraints, together with limited staffing resources for some processes, led to some cases of non-compliance with FAO's rules. In particular, filing practices need to be improved as well as the quality of data in corporate systems. In procurement, areas for improvement include: (i) addressing the staffing gap and planning for project procurement in a timely manner; (ii) improving records management; and (iii) complying with MS 507 provisions related to subcontracting procurement elements to the Service Providers. Old or not used assets should be disposed of, including a complete ownership transfer for vehicles. In addition, the staff development allotment is not adequate for the Representation's training needs.

The report contained 15 Actions that Representation management have agreed to take. OIG also identified 17 Compliance Issues to address weaknesses identified.

AUD 2816- Fixed Assets Management

In 2016, OIG completed a review of FAO's Fixed Asset management processes. The two high-level goals of Fixed Asset Management are (i) ensuring the accuracy of financial reporting and (ii) the safeguarding of assets. The primary objective of this review was to assess the adequacy and effectiveness of the governance, risk management and control processes regarding management of assets to ensure that assets are properly safeguarded and policies and procedures are complied with.

At the end of 2015, there were 47 200 assets classified as non-expendable, for a total book value of USD 23.2 million. In addition, FAO's expenditure on expendable assets and 'supplies and consumables' amounted to USD 14.6 million and USD 188.7 million respectively, according to FAO 2015 Audited Financial Statements.

With the adoption of International Public Sector Accounting Standards (IPSAS) in 2014, FAO has had to grapple with the challenge of recognizing the value of both fixed assets and inventory in its financial reporting for the first time. Coupled with the implementation of GRMS, new processes needed to be developed and staff members worldwide required additional training. Since the Finance Division (CSF) took over from Procurement Services (CSAP) as the business process owner in 2012, they have successfully developed these processes to enable FAO to report accurate financial figures and receive unqualified opinions on its audited financial statements. Furthermore, comprehensive policies and procedures have been developed for the various asset management processes and are available to FAO staff.

Although FAO has achieved these important milestones, it nevertheless faces significant challenges in the asset management process, some of which OIG and the External Auditor have reported in the past.

This audit has confirmed previous findings and identified several additional control weaknesses, leading to the conclusion that there is still substantial work to be done to manage FAO assets effectively. Issues exist across the various asset management processes, both in the design and operating effectiveness of key controls. The following are some of the key audit findings:

(i)   CSF has relied heavily upon the Shared Services Centre (SSC) to assist in carrying out its asset management responsibilities, but has done so without a Service Level Agreement (SLA) in place. This has led to numerous issues including volatility in capacity, lack of clarity in roles and responsibilities and ineffective procedures performed by SSC.

(ii) The asset additions process continues to be rife with errors leading to its overall ineffectiveness and inefficiency. These errors mostly originate from the Purchase Order process.

(iii) Controls in place to ensure the completeness of asset registers to determine if they were incorrectly charged could be improved.

(iv) The processes for all asset disposal types are ineffective. There are significant errors in the design of COIN's assets disposal module, which expose FAO to the risk of fraud.

(v) Other key processes, such as the annual physical verification of assets and asset transfers between custodians are not working effectively.

(vi) The ownership of IT assets at headquarters is being transferred from CSF to the Information Technology Division (CIO) without a formalized SLA in place to clearly define roles and responsibilities, increasing the risk of control gaps and inefficiencies.

This report includes 22 Agreed Actions aimed at addressing these findings and other control weaknesses discussed in the report. In OIG's view, management should give priority to the following:

(i)   CSF and SSC to formalize work arrangements for Asset Management in an SLA.

(ii) CSAP, CSF and SSC (in liaison with other units as necessary) to improve controls in the asset additions process (different alternatives are discussed in the body of the report).

(iii) CSF to review expenses to identify and correct recording errors.

(iv) CSF in collaboration with SSC to modify COIN's assets disposal module to strengthen controls.

(v)   CSF in collaboration with SSC to research, propose and implement an asset tagging system.

(vi) CIO and CSF to develop an SLA specifying the roles and responsibilities for the transition in ownership of IT assets at headquarters.

One underlying cause for the weaknesses observed is the instability and lack of staff capacity related to asset management in CSF, SSC and Decentralized Offices (DOs). Moreover, as ensuring the accuracy of financial reporting and ultimately delivering clean financial statements is CSF's first priority, there is a risk that any reduction in capacity will result in a reduction of the attention paid to mitigating risks related to safeguarding of assets. This already appears to be occurring with recent reductions in SSC staff devoted to asset management. Management needs to consider these risks as it embarks on a plan to remediate these findings.

In conclusion, based on its review OIG has determined that Organizational performance of Asset Management is unsatisfactory.

AUD 2916 – Comprehensive Review: FAO Subregional Office for the Pacific Islands (SAP)

The area of Implementation of the Strategic Framework was assessed as Some Improvement Needed. SAP has made good progress in the implementation of the Strategic Framework within its immediate remit. Its CPF, both at the country and subregional level, as well as its Regional Initiative are integrated and results driven (output-based), and the Office follows a well-established six-monthly monitoring and reporting cycle.

Preparation of SLAs was largely perceived as a top-down exercise driven by headquarters with limited apparent benefits for SAP. Further, so far there has been no systematic coordination between RAP and SAP on their implementation of the Strategic Framework. SAP operates with its customary staffing structure and funding. It needs to thoroughly assess the skill mix and capacity of its Multi-disciplinary Team (MDT).

The area of Governance, Accountability and Internal Control System was assessed as Major Improvement Needed. SAP management understands the specific role and responsibilities of the

Subregional Office in the countries of the Subregion. However, SAP has not yet carried out a comprehensive Risk Assessment exercise which would inform and facilitate the direction of its programming and operational activities. The general control environment has been weakened in the past by instances of established procedures and controls being overridden, setting a poor example and tone at the top.

The area of Programme and Operations was assessed as Some Improvement Needed. SAP has a well-established CPF, aligned with FAO's Strategic Framework and the UNDAF, endorsed by the host governments, and is receiving favourable support from stakeholders. However, it is noteworthy that, with few exceptions, the resources available under SAP's field programme are generated from only two corporate sources: TCP and GEF funds. The major donors in the Subregion have not had a practice of providing extra-budgetary funds to FAO, indicating that the Office needs to strengthen its Resource Mobilization efforts.

SAP management is knowledgeable about current projects as well as those in the pipeline, and actively monitors and manages programme operations. Given the large number of TCP projects operated by SAP, its field programme is highly fragmented, leading to a heavy workload for SAP staff. The Subregion's geographical diversity and limited communication infrastructure at times add to the particular challenges in the Subregion and affect coordination with onsite project staff and other local stakeholders, as well as the gathering of reliable and complete information. Project design and implementation would therefore benefit from the consideration of known risks, including external shocks such as extreme weather conditions.

The area of Finance and Administration was assessed as Major Improvement Needed. There are considerable weaknesses in the area of procurement, contracts and LoAs which affect the integrity of controls and transparency of operations. Further, the Office lacks systematic and overarching procurement planning for the Subregion. The Office also lacks a contextualized HR strategy that outlines the requirements to support the current and prospective field programme. Controls over assets and travel, and over the payment and receipt cycle are generally sound. However, it would be advisable for SAP to develop an overarching solution for the transfer of funds to remote locations in the Subregion.

The report contains 26 Actions that SAP management has agreed to address. In addition, OIG raised ten Compliance Issues to address weaknesses identified.

AUD 3016- Review of Information Products and Promotional Development contracts

OIG completed a review of Information products and promotional development (IPPD) contracts in FAO. The objectives of the review were to assess if IPPD contracts are i) justified as an exception to Manual Section (MS) 502, ii) adequately processed so that value for money is demonstrated and iii) monitored to ensure the service providers deliver the agreed goods and services.

Procurement of goods, works and services are generally governed by Manual Section (MS) 502 (Procurement of goods, work and services). However, due to their unique nature, MS 502 Appendix A lists a series of procurement activities, which are not governed by this MS including the procurement of IPPD.

IPPDs are currently managed by the Office of Corporate Communication (OCC) and are governed by draft MS 706 (Contract for Information Products and Promotional Development). Draft MS 706 comes with a series of contract templates that can be used in different scenarios according to the types of services contracted and their cost.

Conceptually, the IPPD tool is in general a valid exception to MS 502, to the extent that the selection of service providers is based, either completely or mostly, on creativity-related criteria that cannot be objectively assessed. However, OIG found that, while most specific IPPD contracts fit within the

scope of draft MS 706, there are also several cases where an IPPD contract has been incorrectly used when a contract or purchase order according to MS 502 would have been more appropriate.

OIG also found that the draft MS 706 was never officially issued and has remained as a draft since 2000. Consequently, OCC (and its predecessor units) have been operating with IPPD contracts in a policy vacuum. This has increased the inherent risk of the tool. However, we also acknowledge that the Legal Division (LEG) considered that the risk is minimal from a legal point of view and that, despite the long time passed since the IPPD contract templates were developed, their text remains reasonable and requires only limited update.

If properly updated and formally issued with some enhancements, MS 706 represents a reasonable framework for conducting IPPD operations and provides reasonable assurance that Organizational funds are used with due regard for the economy, efficiency and effectiveness of operations.

Nevertheless, OIG found that in general IPPD procurements did not comply with key controls included in draft MS 706. For example, the majority of cases reviewed by OIG did not follow a competitive selection process and direct procurement was not duly justified. Consequently, the value for money of the majority of IPPD contracts has not been demonstrated. According to OCC, draft MS706 was usually complied with and the issue is mainly one of documentation of the work done.

Based on its review, OIG concludes that Organizational performance as regards the processes and functions reviewed is unsatisfactory . OIG proposed and management agreed with ten actions to address the issues discussed in this report.

AUD 3116- Review of FAO Medical Service

OIG completed a review of FAO's Medical Service (CSDM) following a management request. The objectives of the review were to assess: i) the adequacy of CSDM's staffing and structure, ii) the possibility of streamlining administrative and transactional processes and iii) the adequacy of the personal health care clinic business model and its financial sustainability.

CSDM has recently introduced improvements aimed at streamlining their work and to focus more on occupational health and safety related preventative services, rather than clinical activities only, including inter alia: i) recruiting an occupational health and safety physician consultant, ii) optimizing the use of occupational health software (Medgate), and iii) introducing sick leave case management.

OIG acknowledges these accomplishments, which were conducted over a short period, and recommends further improvement in each of the review's focus areas, mainly:

a)   with regard to CSDM's staffing and structure:

-        developing a health risk profile of FAO employees to assess CSDM capacity needs

-        developing detailed workplans of CSDM employees, including consultants, with defined objectives, outcomes, timeframes and monitoring results on a regular basis.

b)   with regard to streamlining administrative and transactional processes, and sick leave management:

-        developing a plan for the enhancement of Medgate and training users

-        reassessing (and eventually revisiting) current SLAs and developing new SLAs with relevant stakeholders outlining roles and responsibilities, expected outcomes and service levels

-        analysing certified sick leave (CSL) data to develop meaningful preventative plans

-        further enhancing the monitoring of CSL beyond 20 days

-         confirming requests for mobility waivers on medical grounds with an external independent opinion.

c)   with regard to the Personal Health Care Clinic:

-         developing a business model for Clinic's services with defined objectives and mission

-         developing a formal pricing strategy for the Clinic's services

-         monitoring the utilization rate of Clinic services

-         reconciling payments from medical insurance companies to invoices and follow up for differences

-         implementing a process to record and track cash receipts for personal health care services, and reconcile these with CSF records.

OIG notes with concern that some basic deficiencies reported in the past, such as the lack of an employee health risk profile and the lack of meaningful sick leave statistics, continue to be outstanding several years after the issuance of specific recommendations.

Based on its review, OIG concludes that Organizational performance as regards the processes and functions reviewed 'Needs Some Improvement'. This report includes 21 Agreed Actions requiring management attention.

Annex E

Summary of Long Outstanding High Risk Recommendations

Recommendation Title	Recommendation	Updated Status Information
AUD3410 Business Continuity Management - Rec 1	The DDG-O should establish and begin implementing an organization-wide Business Continuity Management framework, which takes into account the guidance included in this report as well as other good practices.	An initial project, carried out with the support of an external business continuity expert, is currently underway to review the status of business continuity in FAO and perform a gap analysis against UN standards. The project deliverables include the preparation of a revised policy for business continuity and ORMS (organizational resilience management) as well as a plan for the implementation of business continuity at FAO HQ and SSC. The plan will be submitted for approval by Senior Management by April 2017 before implementation can commence.
AUD3312 Financial Management and Administration Capping Report for 2011 Country Office Audits - Rec 3	The DDO must establish a framework for policy monitoring responsibilities within the different units of the operations arm. A needs assessment for monitoring functions in light of existing funding and capacity of policy issuing units, specifically of CS units, should be undertaken.	Under OSP lead, the FAO Accountability Policy has been developed and presented to the Finance Committee (FC 157/15) and, the Internal Control Framework developed and presented to the Finance Committee (FC 161/16), which commended the Secretariat on the significant series of steps taken/planned. The required template for the Fraud Prevention Plan, based on the Administrative Circular No. 2015/08, Policy against Fraud and other Corrupt Practices, was distributed by OSD in 2016 to all Country Offices (in French, English and Spanish; Arabic to follow in 2017). Guidelines for the preparation of FAO Country Annual Reports are strengthening the focus (in Part 3) on accountability and internal controls, leading to a streamlined FAOR reporting approach, coordinating the Annual Reporting process with internal controls reporting, as per approach approved

		by the FAO Internal Controls Steering Group in December 2016. Under OSP leadership, steps to deploy an internal control reporting procedure are under finalization, to result in a Statement of Internal Control to accompany the 2017 financial statements. Awareness raising and training efforts, including the actual Internal Control Questionnaire (ICQ) to be used for 2017 internal controls reporting, are also scheduled (start second quarter of 2017 and continue throughout 2017). Based on the above, closure is recommended[8].
AUD 0414 - Review of GRMS Programme closure - Rec 3	The GRMS Steering Group should contract an external consultant (or consulting company) specialized in ERP; to help define the capacity/resources required for GRMS production support, across the Business Units (BU) and the most effective governance arrangements.	The consultant has been selected and contract expected to be signed be end of February 2017.
AUD 3213 - HQ Infrastructure Mgmt - Rec. 3	The DDG-O should initiate a periodic reporting on headquarters premises safety to the relevant Governing Bodies, through which the Governing Bodies can monitor efforts to reach full compliance with the host country building safety standards and provide guidance and decisions on funding.	Update February 2017: Following the contacts with FAO, the Ministry of Infrastructure has informed CSAI verbally that the yearly amount allocated for FAO urgent maintenance works has been increased to Euro 1.500.000 annually for the next three years. Also, the Ministry of Infrastructure has submitted to the concerned Italian authorities, in June 2016, an energy saving project (for building C only), for a total amount of Euro 4.200.000. Feedback has not yet been provided to the Ministry. Further efforts are underway by the ADG CS in order to obtain additional funding from the Italian Authorities. The matter of reporting to the Governing Bodies should be considered within the framework of the FAO Accountability Policy and Internal Controls Framework

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[8] OIG disagreed to the closure.

		(already presented to the Finance Committee) and any update and reporting in that context. Due diligence is being exercised by the DDG/O In accordance with Administrative Circular 2011/22 and DG Bulletin 2013/36, which assigned to the DDG-O was assigned the role of Designated Safety and Health Official for the Organization, with constant support and coordination of efforts by the ADG/CS. It is accordingly recommended that the recommendation be closed
AUD 3213 - HQ Infrastructure Mgmt - Rec. 5	In addition to the information to be submitted to the Governing Bodies in the context of Recommendations #2 and #3 above, the DDG-O and ADG, CS should consider developing a proposal for a Capital Renovation Plan of the compound, based on a needs assessment coordinated by CS (with internal and external support as necessary).	February 2017: a proposal is under preparation by CS.

Annex F

Organization Chart

December 2016

T. Rajaobelina
Inspector General, D2

Decentralized Audit Group

Headquarters Group

Headquarters Group

Investigations Unit

F. Lincke Senior Auditor, P5

D. Ramirez Leon Senior Auditor, P5

M. Smith-John Senior Auditor, P5

P. Fonte   Senior Investigator, P5

M. Mukhitdinova Auditor, P4

R. Hassan Auditor, P3

A. Shalaby Auditor, P4

J. Ritter Investigator, P4

D. Bowen, Auditor, P4 (RAF)

A. Avni Auditor, P3

G. De Clancey-Eva Office Assist. G3

M. Carbone Investigator, P3

P. Colibeau Auditor, P3 (RNE)

D. Muller Intern

Vacant, Auditor, P2

M. Norbis Investigator, P3

K. Omura Auditor, P3

Vacant, Audit Assist. G5

A. Petraia Office Assist. G3

G. Byrd Audit Assist. G4

J. Davids Investigation Consultant

Vacant, Auditor (RAP)

A. Millan Investigation Consultant

Vacant, Auditor (RLC)

C. Fascetto Investigation Consultant

Vacant, Forensic Investigator, P3

Immediate Office
Vacant, Office Associate, G6

K. Singh, Office Assist. G4

C. Simes, TAP, G2

Annex G

Staffing table as at December 2016

	Grade	Male	Female	Vacant	Total
Inspector General	D2	1			1
Auditors					13
Senior Auditor	P5	2	1		3
Regional Auditor	P4	1		1	2
Regional Auditor	P3	1		1	2
Auditor	P4	1	1		2
Auditor	P3	2	1		3
Auditor	P2			1	1
Investigators					5
Senior Investigator	P5	1			1
Investigator	P4		1		1
Investigator	P3		2	1	3
		9	6	4	19
Audit Clerk	G5			1	1
Secretarial and Administrative Support					5
Secretary	G6			1	1
Clerk/Typist	G4		1		1
Records Clerk	G4	1			1
Clerk/Typist	G3	1	1		2
		11	8	6	25

The following countries are represented in the above:

Country	D and Professional Grade	General Service	Total
Argentina	1		1
Egypt	2		2
France	1		1
Germany	1		1
India		1	1
Italy	1	2	3
Jamaica	1		1
Japan	1		1
Madagascar	1		1
Spain	1		1
UK	1		1
USA	3	1	4
Uzbekistan	1		1
Vacant	4	2	6
Total	19	6	25

Annex H

LIST OF ACRONYMS USED

ADG	Assistant Director-General
ADG-CS	Assistant Director-General, Corporate Services, Human Resources and Finance
CERF	Central Emergency Response Fund
CII	Conference of International Investigators
CIO	Information Technology Division
CO	Country Office
CPF	Country Programming Framework
CS	Corporate Services, Human Resources and Finance Department
CSAP	Procurement service
CSF	Finance Division
OHR	Office of Human Resources
CSPL	Learning, Performance and Development Branch
DDG	Deputy Director–General
DDG-O	Deputy Director–General, Operations
DDG-P	Deputy Director–General, Programmes
DO	Decentralized Office
EU	European Union
ERM	Enterprise Risk Management
F&A	Finance and Administration
FAOR	FAO Representative
GM	Gender Mainstreaming
GFP	Gender Focal Point
GRMS	Global Resource Management System
IP	Implementing Partner
IPPD	Information Products and Promotional Development
LoA	Letter of Agreement
MOU	Memorandum of Understanding
MS	Manual Section

NSHR	Non-Staff Human Resources
ODG	Office of the Director-General
OED	Office of Evaluation
OHRT	Office of Human Resources
OIG	Office of the Inspector General
OPIM	Operational Partners Implementation Modality (OPIM)
OSD	Office of Support to Decentralization
OSP	Office of Strategy, Planning and Resources Management
P&O	Programme and Operations
PAGODA	Pillar Assessed Grant or Delegation Agreement
PEMS	Performance Evaluation Management System
PSEA	Protection from Sexual Exploitation and Sexual Abuse
PWB	Programme of Work and Budget
RBAP	Risks-based audit plan
RER	Residual Error Rate
RO	Regional Office
RM	Resource Mobilization
SO	Strategic Objective
SRC	Subregional Coordinator
SRO	Subregional Office
TSS	Technical Support Services
UN-REDD	UN Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
UN–RIAS	UN Representatives of Internal Audit Services
UN-RIS	Investigation Services of UN Agencies