



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Продовольственная и  
сельскохозяйственная  
организация  
Объединенных  
Наций

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## CONFERENCE

**Thirty-sixth Session**

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**Audited Accounts – FAO 2006-2007  
Part B – Report of the External Auditor**

**REPORT OF THE EXTERNAL AUDITOR  
ON THE FINANCIAL STATEMENTS OF  
THE FOOD AND AGRICULTURE ORGANIZATION  
OF THE UNITED NATIONS  
FOR THE FINANCIAL PERIOD 1 JANUARY 2006 TO 31 DECEMBER 2007**

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## PART I

### GENERAL

#### Introduction

1. The present report is being submitted on the results of the audit of the Food and Agriculture Organization (FAO) of the United Nations for the biennium 2006-2007. The scope of the audit was decided in compliance with Financial Regulations 12.1 to 12.10 of the Organization and the additional Terms of Reference governing External Audit appended thereto.
2. The present report, which is written in English, includes my observations on the Financial Statements of the Organization for the period 2006-2007 which are reported in Part I of this Report.
3. Two Regional Offices<sup>1</sup> (ROs) and eighteen FAO Representations<sup>2</sup> (FAORs) were visited by audit. These audits covered selected management issues, compliance and regularity aspects. The results of audit of the field offices and my observations are reported in Part II of this report.
4. In addition, management reviews of the working of the Organization, in respect of Functioning of Oversight Mechanism in Internal Audit and Local Audit Programme, Human Resource Management System Project, Oracle ERP Financials and Procurement of Services of Consultants and Personal Services Agreement Subscribers by the Emergency Operations and Rehabilitation Division (TCE) of Technical Cooperation Department were carried out during the biennium. My observations on the management reviews are reported in Part III of this report.
5. My observations on losses written off, ex-gratia payments and cases of fraud or presumptive fraud during the biennium are included in Part IV of this report.
6. The present report also contains my recommendations arising from my observations. Following past practice, I have categorized these recommendations as Fundamental, Significant and Meriting Attention.<sup>3</sup>

#### Summary of Recommendations

	Financial Matters	Priority	Timeline
1	<i>(a) I recommend that the pursuance of the matter of collection of outstanding assessed contributions be continued vigorously. Given the sensitivity of the Organization's liquidity to the quantum and timing of the receipt of the contributions, I recommend that the issue of increasing the corpus of the Working Capital Fund be revisited.</i>	<i>Significant</i>	<i>2009</i>

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<sup>1</sup> Regional Office for Africa, Accra and Regional Office for Asia Pacific, Bangkok

<sup>2</sup> Afghanistan, Bangladesh, Bolivia, Brazil, Egypt, Ghana, Indonesia, Jamaica, Namibia, Nepal, Senegal, South Africa, Tanzania, Thailand, Trinidad and Tobago, Uganda, Vietnam and Zambia.

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

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

**Merits Attention**: Action is considered desirable and should result in enhanced control or better value for money.

	<i>(b)In the light of the increase in the proportion of the salary component in the overall cost structure of the Organization and the gap in support cost recoverable reported, I encourage the Organization to consider closely reviewing the adequacy of the Project Support Costs recoverable to ensure financial sustainability of the Organization's activities. (paragraph 29)</i>		
2	<i>I recommend that the Organization decides on a timeframe by which the past-service ASMC liability should stand fully funded and take appropriate follow up action. (Paragraph 33)</i>	Significant	2009
3	<i>I recommend that the Organization should continue its efforts at reconciling the balances with UNDP. (Paragraph 38)</i>	Merits Attention	2008
4	<i>I recognise the steps already taken towards adoption of IPSAS by effecting significant changes in accounting policy and encourage the Organization to carry forward the momentum. I recommend that the Organization should closely monitor the time and cost framework for adoption of IPSAS, considering both the significant volume of work involved in the transition and the decentralised nature of the activities of the Organization. (Paragraph 43)</i>	Fundamental	2011
5	<i>I recommend that the Organization should proceed with making the necessary adjustments or write-offs, as appropriate, to the prepayments account and the clearing accounts identified at the end of 2006-2007 biennium. I encourage the Organization to continue on an ongoing basis to monitor and settle outstanding items of clearing accounts in a timely manner. (paragraph 54)</i>	Merits Attention	2008
6	<i>I observe that TCP disbursement has been affected by the liquidity position of the Organization. Further, the current business model would also strain the capacity of the Organization to handle such a high volume of extra budgetary resources and the RP/TCP appropriations and disbursements simultaneously in a timely manner. I recommend that the Organization consider reviewing its capacity,business model and processes and putting appropriate mechanisms and procedures in place to ensure that the finalisation of and the disbursements relating to TCP projects do not suffer. (Paragraph 63)</i>	Fundamental	2009
	Field Offices		
7	<i>I recognise the steps being taken by the Organization to improve the monitoring of granting and recovery of advances and encourage the Organization to continue its efforts on an ongoing basis. (Paragraph 69)</i>	Merits Attention	2009
8	<i>I recognise the steps taken and contemplated by the Organization towards capacity building. I observe that decentralisation process could succeed only with adequate capacity at the field level to shoulder additional</i>	Significant	2009

	<i>responsibilities and increased delegation and encourage the Organization to take stock of the existing position and move forward in a planned way towards effective capacity building of the field offices. (Paragraph 77)</i>		
9	<i>I recommend that efforts to encourage effective and efficient use of the available IT systems and tools be continued. (Paragraph 85)</i>	<i>Merits Attention</i>	2008
10	<i>I recommend that the Organization continue to take action to strengthen the functioning of the internal control measures in the field offices also through training and on site support to field administrative staff. (Paragraph 93)</i>	<i>Fundamental</i>	2009
11	<i>Procurement is a high risk category process from oversight point of view. I take note of the action taken/contemplated following the audit of field offices and recommend closer monitoring to ensure compliance. (Paragraph 103)</i>	<i>Significant</i>	2009
12	<i>I take note of the action taken in improving the planning, implementation and closure processes of both technical assistance and emergency projects and encourage the Organization to move forward towards an efficient planning process that aims at time bound delivery, improved documentation and a timely closure procedure. (Paragraph 113)</i>	<i>Merits Attention</i>	2009
	<b>Human Resource Management System Project</b>		
13	<i>The launching of a project as important as the HRMS without first ensuring a timely source of funding led to a weaker sense of ownership of the project that impacted adversely on efficient project formulation and implementation. I recommend that the Organization should in future consider committing to launch a project only after identifying a dedicated and time bound source of funding for the entire project. (Paragraph 130)</i>	<i>Fundamental</i>	2008 onwards
14	<i>A project meant to bring in BPR to better achieve the Organization's strategic objectives through increased efficiencies, has mainly resulted in automation primarily aligning it with the Oracle functionalities leaving the system changes to be brought about after the closure of the project through SCRs. I take note of the action being taken to recognise the portions of the packaged solution that do not match well with the Organization's overall business objectives and to mark them for customisation and recommend that in respect of customisations that are not possible due to cost or time issues, the risks involved should be recognised, accepted and approved at the appropriate level. (Paragraph 137)</i>	<i>Significant</i>	2009
15	<i>A viable mechanism that takes into account, inter alia, the reduced functionalities rolled out, the cost of resolving Problem Reports and System Change Requests</i>	<i>Significant</i>	2009

	<p><i>and the cost to various Divisions in the process leading to the roll outs, past and future, would be necessary to arrive at any meaningful estimate of savings or efficiency gains, if any. I recommend that:</i></p> <p><i>(a) such a mechanism be in place;</i></p> <p><i>(b) a review of the To-Be and Gap Analysis documents and improvement proposals vis-à-vis what has actually been delivered and what remains to be delivered be carried out by the process owners; and</i></p> <p><i>(c) a policy note should be prepared on what can be achieved from among pending deliverables emerging from (b) above and signed off at appropriate level. (Paragraph 140)</i></p>		
16	<p><i>(a) I recommend that the SLAs be finalised and benchmarks for various identified and accepted key performance indicators determined.</i></p> <p><i>(b) Not making use of the corporate data warehouse may become an impediment in the successful functioning of the SSC as well as HRMS. I therefore recommend that the Organization consider expanding the corporate data warehouse at the appropriate time. (Paragraph 144)</i></p>	Merits Attention	2009
17	<p><i>HRMS has a vital role to play in the process of decentralisation. Connectivity and adequate capacity of the field offices would be pivotal in determining their ability to optimally utilise HRMS. I recommend that this crucial aspect be focussed upon and prioritised so that the project does not end up as a costly IT oriented exercise for use by HQ and SSC. I further recommend that:</i></p> <ul style="list-style-type: none"> <li><i>• the analysis of the lab tests and live tests carried out from country office desktops may be analysed so that post roll-out problems, if any, in this regard are minimised;</i></li> <li><i>• before rolling out HRMS functionalities to offices which are dependent upon ISPs it should be ascertained that these ISPs are sufficiently sized and have suitable performance levels so that the effective functioning of the HRMS in these offices is assured; and</i></li> <li><i>• the Organization revisits and examines whether the defined desirable connection speed is indeed adequate given the additional functionalities rolled out/to be rolled out. (Paragraph 150)</i></li> </ul>	Fundamental	2009
18	<p><i>I recommend that all the tests as per the Testing Requirements and Strategy documents be carried out on the remaining modules/functionalities before rollout so that the business objectives of HRMS are fully achieved and spill-over costs are minimised. I further recommend</i></p>	Merits Attention	2008

	<i>that end users be more effectively involved in the project. (Paragraph 157)</i>		
19	<i>I recommend immediate formulation and effective communication of a formal and comprehensive change control policy for Oracle HRMS. I further recommend that the potential serious risks of the absence of an established configuration management policy specifying the baseline and the approach to handle change must be recognised and accepted at the appropriate level. (Paragraph 161)</i>	Significant	2009
	Oracle ERP Financials		
20	<i>I observe that the drivers for the decision to hold back for the present, proceeding with the FAS Replacement Project pending a review of other related developments were present and known much earlier. I recommend that, looking forward, the need to launch a new project or the need to continue with one that has been launched should be assessed in the light of other activities /initiatives of the Organization. (Paragraph 181)</i>	Merits Attention	2008 onwards
21	<i>I recommend that the Organization enhance the capacity of the business units to enable them to prepare change request specifications. I further recommend that the Organization introduce a formal emergency change procedure. (Paragraph 189)</i>	Fundamental	2008
22	<i>I recommend that the Organization reconfigure the values of parameters in user profiles reflecting security requirements of the system, balancing security with usability and ensuring better access controls. I observe that setting resource limits help ensure that the application or user does not intentionally, or inadvertently, take over the database and system's resources and recommend that the Organization should consider ways of setting resource profiles to limit the use of database resources. (Paragraph 195)</i>	Significant	2008
23	<i>I observe that there is a gap in the practice of granting and monitoring system access as compared to the stipulated safety procedures. I recommend that the Organization review the position relating to stipulated procedures and evaluate the practices, standard or otherwise, from system security point of view. (Paragraph 201)</i>	Merits Attention	2008
24	<i>In view of the integrated nature of ERP system, a Business Continuity Plan and a Disaster Recovery Plan for IT are of crucial importance. I recommend that the Organization should revisit the issue and either take immediate steps to put a BCP and a DRP in place or clearly recognise and accept the risks associated with not having a BCP and a DRP in an ERP environment. (Paragraph 209)</i>	Significant	2009

25	<i>I recommend that any code combination created that violates the cross validation rules should now be disabled and the process documented for oversight purposes. (Paragraph 213)</i>	<i>Merits Attention</i>	2008
26	<i>In the light of the increasing demands on the IT System's resources, I recommend that a high level cross cutting IT governance mechanism that can consider and prioritise the competing demands be considered in the ongoing process of review of IT governance in the Organization. (Paragraph 218)</i>	<i>Merits Attention</i>	2009
	<b>Functioning of the Internal Oversight Mechanism in the Internal Audit Department and the Local Audit Programme</b>		
27	<i>(a) I encourage the Organization to move forward in conducting a gap analysis of the variance between business requirements and current resources of AUD.  (b) I further recommend that the Organization should prepare and implement the Enterprise Risk Management (ERM) on priority with the assistance of AUD. Pending the preparation of the ERM, AUD should undertake a detailed risk assessment exercise, identifying the units/processes at the auditable entity level after duly considering risks or control concerns indicated by Management. (Paragraph 240)</i>	<i>Fundamental</i>	2009
28	<i>I recommend that the process of functional separation of responsibilities within the Office of the Inspector General should be expedited. I further recommend the formulation of specific contractual terms for consultants if engaged for investigative work. (Paragraph 246)</i>	<i>Significant</i>	2008
29	<i>I recommend that AUD establish a timeframe for the issuance of audit reports and also consider putting an effective monitoring mechanism in place to track the receipt, issue and the details of action taken relating to the audit reports. (Paragraph 254)</i>	<i>Merits Attention</i>	2009
30	<i>I recommend that the local audits should be planned based on an evaluation of risk and that unless warranted by exceptional circumstances, audits should not be carried out more often than once per annum. (Paragraph 260)</i>	<i>Significant</i>	2008
31	<i>I observe that establishment of benchmarks and timelines would lead to prompt issue and objective review of audit reports thereby enabling initiation of corrective action in a time-bound manner and recommend that effective steps be taken to derive the intended benefits to the Organization from the programme. (Paragraph 268)</i>	<i>Merits Attention</i>	2008
32	<i>I take note of the steps being taken to reform the Local Audit Programme and the planned transfer of LAP responsibilities to AUD in the course of 2008-2009 and the steps being taken to ensure the continued implementation of the LAP in the transition period. I</i>	<i>Fundamental</i>	2008



	<i>observe that the Local Audit Programme is an essential link in the assurance and comfort mechanism relating to the Organization's Financial Accounts, more so in the context of the reform process and adoption of IPSAS, and recommend that the LAP is enabled to play that role. (Paragraph 271)</i>		
	<b>Procurement of Services of Consultants and Personal Services Agreement Subscribers (PSAs) by Emergency Operations and Rehabilitation Division (TCE)</b>		
33	<i>The responsibility for creation and maintenance of Corporate Roster would fall on the Organization as a whole and not form a direct and sole responsibility of the TCE. However, I recommend that TCE should strengthen its efforts to immediately develop and maintain a comprehensive roster subject-wise and region-wise to make the process of selection of Consultants more efficient, broad based, objective and transparent. At a later stage, the Organization's Corporate Roster, when set up, can draw from and subsume the TEC's comprehensive roster. (Paragraph 280)</i>	<i>Significant</i>	<b>2009</b>
34	<i>As the practice of single source selection would limit competition, affect transparency, and minimise opportunities for obtaining best value for money, I recommend that the selection process of Consultants/PSAs may be made more formal, broad based and competitive. (Paragraph 288)</i>	<i>Significant</i>	<b>2008</b>
35	<i>I observe that there are repeated engagements of the same individuals for long periods through extensions or re-employment on various projects and recommend that the Organization should make further efforts to streamline the process of selection of Consultants/PSAs, identify more experts through a systematic process and expand its database so as to reduce dependence on a limited number of experts. (Paragraph 293)</i>	<i>Merits Attention</i>	<b>2009</b>
36	<i>Since Personal Service Agreements for hiring services of Administrative Support Staff had been used in the past and were still being used by some FAO Representations, I recommend that TCE should effectively monitor and ensure that such personnel are not hired on Personal Services Agreements. I further recommend that employment of Consultants under Personal Service Agreements may not be resorted to as a specific Manual Section already exists for contracting services of Consultants. (Paragraph 299)</i>	<i>Merits Attention</i>	<b>2008</b>
37	<i>Although the Administrative Resources Management System is designed to facilitate online maintenance of Employee Assignment History and record of past performance, it is not serving the intended purpose as the information available in the system is incomplete. I, therefore, recommend that information relating to Consultants/PSAs in the System may be updated regularly and the accessibility related problems addressed so that it</i>	<i>Merits Attention</i>	<b>2009</b>

	<i>proves to be a useful tool to the procuring officers. (Paragraph 303)</i>		
38	<i>The Organization should strengthen its efforts to ensure meaningful, comprehensive and transparent evaluation of the performance of Consultants and PSAs to make these assessment reports more reliable as an effective tool to monitor the quality of work output. (Paragraph 310)</i>	<i>Significant</i>	2008
39	<i>I recommend that specific time frame may be prescribed for various stages of processing and granting approvals, including waivers, in cases of engagement of Consultants and PSAs. (Paragraph 313)</i>	<i>Merits Attention</i>	2009
40	<i>The rules and procedures governing selection and contracting of services of Consultants and PSAs are not in public domain. There is a lack of proper documentation in selection process. I observe that, going forward, there is scope for improving transparency in the procedures and practices adopted by the Organization and recommend that:</i>  <i>a) the process of selection of Consultants should be adequately documented to provide a record of procurement activities and how these have been conducted, and also to facilitate independent scrutiny of these activities at a later date;</i>  <i>b) to promote further transparency in its functioning, the Organization should consider placing its guidelines/rules relating to identification, selection and contracting of Consultants and PSAs in public domain for easy accessibility by all stake holders, experts, technical personnel and others; and</i>  <i>c) the Organization should consider tailoring, in future, the terms and conditions of the service agreements with Consultants to be in line with the best practice of publishing names of successful candidates and other brief details in its Website to enhance transparency in the procurement process. (Paragraph 319)</i>	<i>Fundamental</i>	2008
41	<i>In the light of the significant number of waivers being granted, I recommend that, looking forward, the Organization should consider disclosing such waivers, to begin with, in the Organization's Intranet in the interest of greater transparency. (Paragraph 323)</i>	<i>Fundamental</i>	2008
42	<i>The emergency and rehabilitation operations and the volume of delivery of these operations have grown tremendously. There has been a significant number of waivers granted in the engagement of Consultants and PSAs and issue of frequent 'case to case' instructions which are, perforce, ad hoc in nature. I, therefore,</i>	<i>Significant</i>	2009

	<i>recommend that the issue of framing of a comprehensive framework of rules to guide the selection and contracting of Consultants and PSAs for emergency projects, as distinct from rehabilitation or other projects, be visited. (Paragraph 325)</i>		
	<b>Other Matters</b>		
<b>43</b>	<i>I recommend that the Organization consider introducing a mandatory process by the line managers to verify whether a disciplinary proceeding is pending against a staff member before accepting the staff member's request for separation. (Paragraph 338)</i>	<i>Significant</i>	<b>2009</b>

### **Audit of Financial Statements**

7. The audit of financial statements was carried out in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and conforming to International Standards on Auditing. These standards require that the audit be planned and carried out to obtain reasonable assurance that the financial statements are free from material misstatements. The Director General is responsible for preparing these statements and I am responsible for expressing an opinion on them.

8. The audit included an examination, on a test basis and as considered by me to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. It also included assessing the accounting principles used and significant estimates made by the Director General, as well as evaluating the overall presentation of the financial statements.

9. In addition, I was requested to perform audit of the following separate financial statements for the programmes implemented in cooperation with or on behalf of other agencies, namely:

- FAO/UN Population Fund (UNFPA) Biennium Status of Funds and Schedule 1- Biennial Expenditure Statement as at 31 December 2007;
- FAO/UN Development Programme (UNDP) Status of Funds and Schedule 1- Schedule of Expenditure on Projects executed by FAO, as at 31 December 2007; and
- FAO/Global Environment Facility Fund (GEF) - Status of Funds for the biennium ended 31 December 2007.

10. The audit enabled me to issue an unqualified audit opinion on the financial statements of the Food and Agriculture Organization of the United Nations for the biennium 2006-2007.

### **Previous Recommendations**

11. I have not separately included comments on actions taken on the previous recommendations except when the context demanded so. This is because the Finance Committee has already developed a mechanism of following up all previous recommendations the Organization is yet to fully address.

### **FINANCIAL MATTERS**

#### **Financial Position of the Organization**

12 The financial position of the Organization has shown a marginal improvement as at the end of the biennium 2006-2007. The net shortfall of income over expenditure of the General and Related Funds was USD 55 million, which is a considerable reduction from the shortfall of USD 85 million during the biennium 2004-2005 (in contrast to the biennium 2002-2003 which ended with income in excess of expenditure amounting to USD 13.4 million). The improvement, compared to 2004-2005, is

mainly due to a reduction in the provision for contributions by USD 67.6 million and an increase in gains in exchange by USD 34.2 million, partly offset by an increase in deferred income by USD 59.5 million.

13. The significant factors were increase in voluntary contributions by USD 18.8 million and increase in Regular Programme expenditure by USD 17.3 million. This contrasted with the preceding biennium 2004-2005 during which there was a significant increase of USD 72 million in provision for delays of contributions (as against a reduction of such provision by USD 64.6 million in 2002-2003). The other significant factors were the amortization of the after service medical coverable liability of USD 45.4 million and the application of USD 42.6 million of long term investment income to staff related schemes as authorized by Conference Resolutions 10/1999 and 10/2001.

14. As part of the changes in accounting policies relating to Provision for Contributions Receivable from Member Nations and Liabilities for Staff After-Service Schemes, the Organization restated the deficit under General and Related Funds opening balances at USD 361.5 million (USD 124.8 million before restatement). This is due to the recording of the an additional USD 397.7 million towards the staff related liabilities so that the entire liability is reflected on the face of the financial statements and the write back of provision for delays of contributions of USD 161 million.

15. The deficit in the end of the biennium fund balances under General and Related Funds has been increasing steadily: from USD 90.1 million in 2002-2003 to USD 361.5 million (USD 124.8 million before restatement) in 2004-2005 to finally stand at USD 465.3 million as at the end of biennium 2006-2007.

16. As regards Trust and UNDP Funds, the Organization had an excess of income over expenditure of USD 36.6 million in 2006-2007 (USD 14.3 million in 2004-2005 and USD 6.4 million in 2002-2003). This primarily represents the interest income on the cash, term deposits and short term investments. The entire amount has been transferred to the donor accounts, thus leaving the Fund Balance unchanged at the end of the biennium.

17. The Organization's assets under General and Related Funds on 31 December 2007 stood at USD 488.9 million, an increase of 69.6 per cent over the preceding biennium. Cash and term deposits increased from USD 30.8 million on 31 December 2005 to USD 36.2 million on 31 December 2007. The contributions receivable (net of provision for delays in contributions) increased by USD 107.2 million mainly due to the change in accounting policy relating to provision for delays in contributions. The long term investments increased substantially by USD 90.9 million from USD 208.8 million in 2004-2005 to USD 299.7 million in 2006-2007. The Accounts Receivable decreased slightly by USD 2.8 million.

18. The liabilities of the General and Related Funds increased from USD 402.9 million as at 31 December 2005 to USD 867.9 million as at 31 December, 2007, representing an increase of 115.4 per cent. The increase was primarily due to increase in recorded liabilities on staff related schemes from USD 239.6 million on 31 December 2005 to USD 719.1 million on 31 December 2007.

19. Under the Trust and UNDP funds the assets went up from USD 462.2 million as at 31 December 2005 to USD 669.8 million as at 31 December 2007, representing an increase of 44.9 per cent. The assets comprised USD 201.6 million in cash and term deposits and USD 450 million in short term investments. The liabilities of USD 646.8 million on 31 December 2007 represented USD 564.8 million of contributions received in advance and USD 81.9 million of unliquidated obligations.

20. The Organization had ended the 2004-2005 biennium with external borrowing of USD 71 million after fully utilising the combined internal reserves of USD 35.5 million. By the end of 2006-2007, with the receipt of sufficient assessed contributions from Members, the Organization was able to extinguish all loans and replenish the internal reserves. However, the fundamentals of the financial position of the Organization still remain weak and require improvement.

### **Liquidity Position**

21. The Organization had to resort to extensive borrowing during the biennium 2006-2007, reaching a peak in loans of USD 104 million in November 2006; the cost of borrowing going up six

fold to USD 1.8 million. By the end of the biennium, however, some major contributions were received and the liquidity position had improved. The biennium end cash and term deposit balances for the combined position of General and Extra-budgetary funds increased from USD 110.9 million as at 31 December 2005 to USD 237.8 million as at 31 December 2007.

22. The current ratio (current assets to current liabilities) of the Organization - both General and Extra-budgetary funds- substantially improved from 0.88 as at end December 2005 to 1.08 as at end December 2007. This is mainly attributable to the substantial increase of USD 235.2 million in voluntary contributions. The contributions receivable had also decreased by USD 52.4 million.

23. The timing and quantum of receipt of assessed contributions have a direct bearing on the liquidity position of the Organization. As at 31 December 2007, USD 113.2 million was outstanding against 73 Member Nations. Fifteen of the Member Nations have outstanding of more than USD 0.5 million adding up to USD 107 million.

24. The Organization resorts to internal borrowing from the Reserve Fund, the Working Capital Fund (WCF), and then from the Special Fund, the Special Reserve Account (SRA) before borrowing from the open market. The purpose of SRA, however, is to protect the Organization's Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary effects. The SRA's value of USD 25.6 million at end-2007 is not, however, entirely backed by cash, as a significant element of the exchange effect was from revaluation into US dollars of Euro accounts receivable from Member Nations.

25. The WCF is a reserve fund specifically created to advance moneys on a reimbursable basis to the General Fund in order to finance budgetary expenditures pending receipt of contributions to the budget; finance emergency expenditures not provided for in the current budget and to make loans for such purposes as the Council may authorize in specific cases. The authorized level of the WCF set up by Conference resolution 15/91 was originally USD 25 million and has increased slightly with the Working Capital Assessments on new Member Nations since 1992.

26. The average monthly outflow for operating expenses was USD 37 million in 2006, USD 38 million in 2007 and is likely to increase in the near future. Thus, the Organization's Regular Programme cash position is highly sensitive to the quantum and timely receipt of contributions. The WCF would not offer much of a safety net as its corpus does not fully cover even one month's operating expense of the Organization.

27. There has been an increase in the proportion of the salary component in the overall cost structure of the Organization. It constitutes a significant portion of the cash outflow. For the biennium 2006-2007, the expenditure on salary for the General fund showed an overall increase from around 73 to 77 per cent but remained almost constant around 36 per cent (19 per cent staff salary and 20 per cent other human resources) for Trust Fund. Further, the Organization has reported that the gap in support cost recovered was widening.

28. The Project Support Costs (PSC) for Trust Fund projects is pegged at a maximum of 13 per cent for technical assistance and direct support of Regular Programme (RP) activities; 10 per cent for emergency assistance; and zero to 10 per cent for jointly funded activities. The rate may be reduced when the variable indirect support costs on a given project are expected to be lower. On an average, the PSC received amount to 6.5 per cent of the project cost. The 2006-2007 biennium saw substantial increase of about 36 per cent in receipts and 34 per cent in expenditure of Trust Funds over the preceding biennium. However, the PSC having been pegged at a maximum of 13 per cent, the increase in the number of Trust Fund projects is likely to lead the Organization to greater financial constraints.

29. *(a) I recommend that the pursuance of the matter of collection of outstanding assessed contributions be continued vigorously. Given the sensitivity of the Organization's liquidity to the quantum and timing of the receipt of the contributions, I recommend that the issue of increasing the corpus of the Working Capital Fund be revisited.*

*(b) In the light of the increase in the proportion of the salary component in the overall cost structure of the Organization and the gap in support cost recovered reported, I encourage the*

***Organization to consider closely reviewing the adequacy of the Project Support Costs recoverable to ensure financial sustainability of the Organization's activities.***

#### **Staff Related Liabilities**

30. The Organization has four types of staff related liabilities: Staff Compensation Payments, Separation Payments, Terminal Payments and After-Service Medical Coverage (ASMC). The Organization has earmarked long term investments and the income generated from the investments in order to meet staff related liabilities in terms of Conference resolution 10/1999 and 10/2001. Prior to 2006-2007, much of these liabilities had remained unrecorded in the financial statements although disclosed in the notes to the financial statements. However, at the end of the biennium 2006-2007, the Organization recorded the full liability of all the four staff related liabilities amounting to USD 719.1 million. I observe that although the Organization has fully recorded these liabilities, an amount of USD 404.6 million remains unfunded as at the end of 2006-2007.

31. The most significant of the staff related liabilities is the ASMC, representing nearly 93 per cent of the unfunded staff related liabilities. The actuarial present value of ASMC at the end of 2006-2007 was USD 576.1 million, an increase of USD 42.7 million from the preceding biennium. The increase is due to continued strengthening of the Euro with respect to the US Dollar, increases in medical claims costs and increase due to adoption of the United Nations mortality table, which assumes greater longevity for plan participants. The increase was partly offset by a change in the discount rate used to calculate the liability from 4.5 per cent to 5.6 per cent.

32. In 2003, the Conference had agreed to begin funding the liability towards past-service ASMC with an additional assessment of USD 14.1 million beginning with the biennium 2004-2005. However, the present level of assessed funding is not adequate to meet the goal of fully funding ASMC by 2027.

33. ***I recommend that the Organization decides on a timeframe by which the past-service ASMC liability should stand fully funded and take appropriate follow up action.***

#### **Matters Arising out of Audit of Financial Statements**

##### **Provision for Contributions from Member Nations**

34. The Organization used to fully provide for the assessed contribution receivable. The accounting policy was changed from 2006-2007 biennium and the Organization now provides for contributions receivable only in exceptional circumstances and deems all assessments as collectible under normal circumstances.

35. Though there was an improvement in the receipt of contributions during the biennium 2006-2007, contributions to the extent of USD 113.2 million, including USD 48.3 million relating to 2004-2005 and prior period, was outstanding from 73 Member Nations.

36. While the current policy is based on collectibility principle, going forward, the Organization would need to also recognise the extent of long standing arrears of contributions experienced over successive accounting periods.

##### **Financial Statements of UNDP Account for Services Provided**

37. The Organization's receivables from UNDP of USD 11.7 million include an amount of USD 5.4 million which related to the period before 2004. The Organization confirmed that the amount was under further investigation to ensure that additional supporting documentation was provided to UNDP in order to allow them to record and reimburse any unpaid amounts.

38. ***I recommend that the Organization should continue its efforts at reconciling the balances with UNDP.***

#### **Adoption of International Public Sector Accounting Standards**

39. Following the decision of the United Nations System Chief Executives Board for Coordination (CEB) to endorse the recommendation of the High-Level Committee on Management

(HLCM) that the UN System adopt International Public Sector Accounting Standards (IPSAS) for all reporting periods beginning on or after 1 January 2010 and the decision in 2006 of the General Assembly (GA 60/283) to approve the proposal for system-wide adoption of IPSAS, the Organization decided to adopt IPSAS for reporting periods beginning 1 January 2010.

40. Adoption of IPSAS will impact the accounting, financial reporting and associated information technology systems of the Organization. Some of the major impacts will result from the following: recognizing and depreciating of both intangible and fixed assets and inventory, recognizing and recording of all liabilities, and preparation and audit of financial statements on a yearly basis.

41. Although the Organization continues to apply United Nations System Accounting Standards (UNSAS) pending IPSAS adoption, some significant steps have already been taken towards adoption of IPSAS:

- Staff related liabilities: The Organization has recorded 100 per cent of the actuarially-determined liabilities in the Financial Statement. The difference between the total liabilities and the amounts recognized after recording current service cost, amortization and long-term investment income was recorded as an adjustment to the opening balance of the General Fund Reserve.
- Provision for contributions receivable: The Organization's accounting policy from the biennium 2006-2007 is that all assessments to Member Nations are deemed collectible under normal circumstances. Therefore, a provision is recorded against these assessments only under exceptional circumstances. The consequent reduction in the provision was recorded as an adjustment to the opening balance of the General Fund Reserve, Working Capital Fund and Special Reserve Account Reserves based on the assessments to which the provision related.
- Investments: They are now reflected at market value.

42. The Organization initially estimated that the full implementation of all IPSAS adoption project deliverables could be achieved by 2010. However, it is now anticipated that preliminary IPSAS compliance will be achieved in 2010 with implementation of finalised solutions in 2011 and the post-implementation support continuing into 2012. The estimated cost of the project has increased from a first, high-level estimate of USD 7.2 million to USD 13.9 million upon conclusion of the detailed planning stage. The Organization attributed the increase in estimated costs to the extended duration and workload of the project.

**43. *I recognise the steps already taken towards adoption of IPSAS by effecting significant changes in accounting policy and encourage the Organization to carry forward the momentum. I recommend that the Organization should closely monitor the time and cost framework for adoption of IPSAS, considering both the significant volume of work involved in the transition and the decentralised nature of the activities of the Organization.***

#### **Other Items**

44. In my long form report on the 2002-2003 biennium accounts, I had highlighted the issues relating to post trial balance adjustments, the Chart of Accounts (CoA), Zero Balance Bank Accounts (ZBBA), bank reconciliation work at Headquarters, overdue prepayments and Clearing Accounts and had recommended appropriate follow up action.

#### **Chart of Accounts and Post Trial Balance Adjustments**

45. Commencing with the 2004-2005 biennium, the Organization improved the presentation of the documentation that support the Financial Statements. The post trial balance documents are now subject to formal review and approval. An audit-trail exists for the adjustments made to the trial balance in the preparation of the Financial Statements.

46. The Organization indicated that the CoA would be reviewed and appropriate action taken as a part of IPSAS project.

### **Zero Balance Bank Accounts (ZBBA)**

47. A review of the bank balances under various account heads in the Trial Balance indicated the continued active presence of ZBBAs. The Organization confirmed that 57 out of the 61 ZBAAs were closed by February 2008 and the remaining four were in the process of being closed.

48. The Organization had subsequently also implemented a new process for the direct replenishment of field offices by electronic funds transfer from HQ banks, reducing the previous reliance on ZBBAs for each field location.

### **Bank Reconciliations**

49. At the end of the 2002-2003 biennium, the number of unreconciled items on Headquarter bank reconciliations was more than 8000. By the end of the 2006-2007 biennium the number of unreconciled items had been reduced to less than 1500. The Organization confirmed that these remaining items, which represented timing and other differences, would be monitored and adjusted as part of the ongoing management and reconciliation of the bank accounts.

### **Overdue Prepayments**

50. Commencing with the 2004-2005 biennium, steps had been taken to reduce the balances under prepayments. The number and amount of overdue outstanding advances steadily declined from 1,190 items involving USD 2.2 million at the end of 2002-2003 to 673 items involving USD 1.1 million at the end of 2006-2007.

### **Clearing Accounts**

51. Clearing accounts were created mainly to record transactions between non-Oracle systems and Oracle financials using interface programs. Since these transactions are recurring in nature, it is necessary that they are reviewed, analysed, investigated and cleared so that outstanding items are identified and referred to business units or field offices for clarification and/or action.

52. During the biennium 2002-2003 clearance of these items had been slow and in some cases, no clearance had been recorded from 1999 with more than 16,000 outstanding items at the end of 2002-2003.

53. The number of outstanding items on clearing accounts had been brought down to nearly 2,500 by the end of the 2006-2007 biennium. About 800 of these items pertain to pre-2004 period. By the end of 2007, the Organization had also carried out further work, identifying items for which it intended to process adjustments and write-offs during 2008 which is likely to clean up the clearing accounts further.

**54. *I recommend that the Organization should proceed with making the necessary adjustments or write-offs, as appropriate, to the prepayments account and the clearing accounts identified at the end of 2006-2007 biennium. I encourage the Organization to continue on an ongoing basis to monitor and settle outstanding items of clearing accounts in a timely manner.***

55. The Organization assured of further appropriate action.

### **Regular and Technical Cooperation Programmes' Disbursements**

56. The Regular Programme (RP), including the Technical Cooperation Programme (TCP) which is the largest major programme funded by the General Fund represents the core mandate of the Organization.

57. The persistent low disbursement rate of TCP in 2006-2007 led to a huge carry forward of appropriations. As at 31 December 2007, the total TCP deferred income (available appropriation) amounted to USD 68.6 million. Financial Regulation 4.3 of the Organization authorises the appropriations for TCP to be carried over to the succeeding biennium. Very low disbursement of TCP over a biennium, as was the case in 2006-2007, may lead to a position where the carried over



appropriations can not be expended even in the four year period. In such a situation in the past, the Organization resorted to charging of the actual expenditure in closed projects, approved and implemented in the subsequent biennium against the previous biennial appropriation, i.e. “return flow”. Given a possible requirement to complete a return-flow exercise for the 2006-2007 TCP appropriation at the end of 2009, the Organization needed to formalise the process to document the procedure for return-flow and its associated operational and financial reporting requirements. The Organization indicated that the process had been initiated.

58. Three factors impact significantly on the RP and, more particularly, the TCP delivery. The first factor is the delay in receipt of contributions, as it directly and immediately affects the liquidity position of the Organization.

59. The second factor is the under or unfunded mandates and matters. Some examples are: celebration of International Years almost on a yearly basis and implementation and facilitating the implementation of International Treaties. The under funding can also arise from unbudgeted expenditures. During 2006-2007, certain obligatory payments, primarily relating to various aspects of unforeseen increase in staff costs, were under-budgeted to the extent of USD 36 million. As these obligations have to be met and involves cash outflow, the Organization has to resort to either adjustments in programmes or to deficit financing and, at times, to both.

60. The third factor is the significant increase in the inflow of extra budgetary resources, accounting for more than half of the Organization’s delivery. Under the Organization’s existing business model, this increase tends to strain the capacity of the Organization, especially in the effective and timely delivery of RP and TCP projects.

61. I had highlighted the problems relating to TCP disbursements in my long form reports relating to both the biennia 2002-2003 and 2004-2005. While the Organization’s liquidity crunch can affect the rate of TCP disbursement, the overall capacity of the Organization to deliver the projects relating to extra budgetary resources and simultaneously make up for the lost time in approvals and disbursements of TCP also needs to be considered.

62. Looking ahead, there is also a risk that the cost of the Independent External Evaluation (IEE) follow up activities may not be adequately funded, because of the time constraint in comprehensive costing. I note that IEE related activities have already required resource input in terms of Organization staff time and the IEE report also identifies adequate funding as one of the risks associated with implementing the reforms.

***63. I observe that TCP disbursement has been affected by the liquidity position of the Organization. Further, the current business model would also strain the capacity of the Organization to handle such a high volume of extra budgetary resources and the RP/TCP appropriations and disbursements simultaneously in a timely manner. I recommend that the Organization consider reviewing its capacity, business model and processes and putting appropriate mechanisms and procedures in place to ensure that the finalisation of and the disbursements relating to TCP projects do not suffer.***

## **PART II**

### **AUDIT OF FIELD OFFICES**

64. During the biennium 2006-2007 selected management issues, compliance and regularity aspects were examined in two Regional Offices<sup>4</sup> (ROs) and 18 FAO Representations<sup>5</sup> (FAORs). The results of audit and my observations are discussed under thematic headings.

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<sup>4</sup> Regional Office for Africa, Accra and Regional Office for Asia Pacific, Bangkok.

<sup>5</sup> Afghanistan, Bangladesh, Bolivia, Brazil, Egypt, Ghana, Indonesia, Jamaica, Namibia, Nepal, Senegal, South Africa, Tanzania, Thailand, Trinidad and Tobago, Uganda, Vietnam and Zambia.

## **Monitoring of Advances**

65. Advances can be granted to staff, non-staff members and consultants. The advances granted for travel and other miscellaneous activities have to be accounted for and settled within a period specified. In case any advance remains outstanding for more than three months, it is to be recovered from the salary or any other amount due to the Organization from the concerned individual. While the responsibility for monitoring and settlement of travel advances to staff lies primarily with HQ, there exist support mechanisms to assist the Regional offices in their responsibilities.

66. The Organization had taken specific steps during 2006-2007 to improve the monitoring and recovery of advances including further efforts to refine and streamline procedures and introduce improved reporting functionality which support the review and follow-up of advances.

67. However, during the audit of field offices a number of areas where the management and recovery of advances at field offices could be improved came to light. These areas include instances where standard provisions for the granting and recovery of advances had not been applied; system support in the monitoring and recovery of advances to non-staff being limited; and, available system functionality to support the monitoring of advances not being fully utilised.

68. Following the conclusion of audit, some of the field offices introduced additional local office specific internal control improvements for these processes. The Organization increased its efforts to follow up with the Regional offices and to provide guidance regarding procedures to be followed for the recovery of advances from staff members and consultants. The Accounts Payable Group of the Organization planned missions to each of the Regional Offices during 2008 to advise on procedural matters.

**69. *I recognise the steps being taken by the Organization to improve the monitoring of granting and recovery of advances and encourage the Organization to continue its efforts on an ongoing basis.***

## **Capacity Building**

70. The decentralisation process aims at strengthening and improving the functioning of regional, sub-regional and country offices. The underlying objective of decentralisation is to enhance the effectiveness of the Organization's programmes and their related projects, improve the efficiency of business processes, and to respond in a timely manner to requests for services relevant to the needs of member countries.

71. Strengthening of Regional Offices during the first phase of decentralisation involved the transfer of a number of functions of direct relevance, including policy assistance, field programme development and technical support services for projects, aimed at developing a significant operational capacity at the regional level.

72. The second phase of decentralisation, starting from 2000-2001, involved transferring operational responsibilities, evolving new relationships and roles between HQ and decentralised offices including reallocation of functions and posts to Regional and Country Offices.

73. Increased delegation of responsibility and authority is the key to the decentralisation process. To ensure that the benefits foreseen in reducing costs and increasing efficiency are realised, it is imperative that adequate capacity is built and is available at the field level.

74. Apart from training courses and workshops to equip the field staff with adequate professional skills, the Organization budgets and allots a percentage of staff costs (usually 1.35 percent) for staff development purposes. These resources are not fungible and the delivery is reviewed on a quarterly basis. The Organization expected that with the introduction of HRMS, there would be a robust Oracle Learning Management Tool available to decentralized offices for staff development and training purposes.

75. Training is among the most effective tools in capacity building. In a significant number of offices audited, the staff development fund was not utilised fully nor a document on the training needs of the staff prepared. Further action, on a continuing and focussed manner, would be required to equip the field offices with adequate skills. Inadequate capacity to efficiently handle increased authority and responsibility is potentially a high risk situation.

76. The Organization indicated, in detail, action initiated including the results-based training and the cost effective 'virtual classroom' pilot and added that activities were underway to prepare an immediate action plan in the context of both FAO Reform and the IEE recommendations that would also address the issues of decentralisation and capacity building.

***77. I recognise the steps taken and contemplated by the Organization towards capacity building. I observe that decentralisation process could succeed only with adequate capacity at the field level to shoulder additional responsibilities and increased delegation and encourage the Organization to take stock of the existing position and move forward in a planned way towards effective capacity building of the field offices.***

### **Field Accounting System and Field Programme Management Information System**

78. The current Field Accounting System (FAS) deployed in field offices is a stand-alone PC-based system. The system was first introduced in May 1999 and has since undergone several revisions. The system is in operation in most field locations and provides a standard manner to support recording and processing of transactions locally. It allows for reporting of imprest returns to Head Office in a computer-readable format for direct upload to the main corporate financial systems, Oracle Financials.

79. The Field Programme Management Information System (FPMIS) is an enterprise-wide information and monitoring software tool supporting activities funded from extra-budgetary resources, as well as TCP and SPFS (Special Programme for Food Security) projects funded by the Regular Programme. The FPMIS is linked directly to the Organization's Data Warehouse (D/W) through which it provides access to financial information. The D/W is the repository of the details of all financial transactions of the Organization.

80. The update of information in FPMIS is made both by Headquarters and by the field offices. Typically, the FPMIS can provide useful project or region/country specific information to all relevant stake holders on the funding, delivery, timeline and state of project implementation of Technical Cooperation (TC), Emergency and SPFS projects. However, while the information available in FPMIS is designed to reflect project delivery as a whole, encompassing data uploads made both at headquarters level as well as those from the field, the delivery figures for individual segments of a project that have been assigned to the FAOR or other staff and the details of baby projects are not available separately. The Organization anticipated partially addressing the problem during 2008.

81. All the country and regional offices audited were linked to Headquarters via internet and could access both the FAS and FPMIS. The reliability and performance of the connectivity, however, varied. Field offices monitored separately the budgetary and financial position in an 'Excel' spreadsheet offline, independent of FAS or FPMIS. This was mainly because of three factors: constraints in connectivity, field office specific information requirements relating to certain segments of projects not being available through FPMIS and limitations on capacity, both of human resources and of infrastructure.

82. Even if adequate skilled human resources were available, factors such as bandwidth, latency and local connectivity would influence the capability of decentralised offices to use software applications as, in any case, the upgrade of the field telecommunications infrastructure is dependent on the Organizational resource availability.

83. The FPMIS needs to become a more effective tool, consistent with its objectives, in providing project management support and dissemination of up-to-date information to stake holders – for example, in the more timely update by users of project related documentation and data. A better sense

of ownership would enable the field offices to make better use of the FPMIS, including uploading of documents and maintaining of up-to-date operational information.

84. The security of the IT systems' environment in the field offices, generally, needed strengthening: specifically in the areas of implementation of the password policy and formulation and implementation of business continuity plan. The Organization indicated the details of action already taken, including the introduction of a password policy, progress in formulation of a Recovery Plan for Country Offices and for Regional Offices and preparation of a synopsis of key points raised by the External Auditor for circulation to the field offices with clear guidance.

**85. *I recommend that efforts to encourage effective and efficient use of the available IT systems and tools be continued.***

86. The Organization agreed with the importance of effective and efficient use of the IT systems available and confirmed it would investigate the possibility of providing additional training on the use of FPMIS. The Organization further noted that the introduction of the Oracle Field system would help to address some of the issues.

### **Internal Control Measures**

87. The Organization's Manual Sections, circulars and local audit check list indicate, inter alia, internal control measures to be adhered to by the field offices. These include: all financial transactions to be in accordance with the Organization's financial rules and regulations; segregation of financial duties; regular reconciliation of bank statements; safe custody and rotation of the custody of safe; regular and surprise cash counts; limitation on the corpus of, and the nature of expenditure from, petty cash; safe custody of cheques; maintenance of appropriate records relating to inventory; enfacing of invoices with 'goods received' on receipt of goods and 'paid' on effecting payment; limitation on overtime payments and engagement of casual labourers; vehicle management etc. The FAO Representatives (FAORs)/ FAO Regional Representatives (ROs) are to satisfy themselves of the effective functioning of the internal control measures and certify due compliance annually.

88. In the light of the increased delegation and the added impetus to decentralisation process, the working of the internal control measures gains further importance. The internal control measures function at two levels: procedural and system based. Rotation of safe's custody or segregation of financial duties can be classified under procedural controls, whereas monthly regular bank reconciliation, dual signatures on cheques and the FAORs/ROs' personal certification could be viewed more as system based. Thus, the Organization has established a robust internal control framework for the field offices in the matter of Finance and Administration and has certain procedures in place to gain assurance regarding the functioning of the control framework at local offices.

89. One of the important internal control measures in the handling of cash and the accounting for expenditure is segregation of duties among persons handling cash, preparing bills and issuing cheques. In a large number of offices visited these roles were bundled. In a significant number of such cases the custody of the safe was also not rotated. The operation of Petty Cash and the maintenance of the Petty Cash register and the frequency of spot surprise checks of cash needed improvement. The process of bank reconciliation needed strengthening. A lack of appreciation of the importance of adhering to the internal control measures appeared to be the main reason for the weakness in fully implementing financial and administrative internal control measures. The Organization agreed with the need for ongoing control over cash assets at decentralised offices and assured of follow up.

90. In FAOR, Senegal the presence of a significant number of cancelled cheques, instances of errors in the Bank Reconciliation Statements, issuance of bearer/consolidated cheques and inappropriate preparation and payment of vouchers were matters of concern. The Organization confirmed that weaknesses noted have been addressed by April 2008 and added that a mission to the Representation was planned.

91. The Regional Office for Asia and Pacific (RAP) had a panel of 10 authorized cheque signatories. The Organization felt that a panel of 10 would be necessary to ensure effective operational

output and strengthen internal control. However, delegation of cheque signing authority to as many as 10 officials of RAP appears not to be a healthy practice. I encourage the Organization to review the necessity of having ten cheque signing authorities.

92. I note that the Organization has increased training initiatives for FAOR staff and that the Decentralised Accounting Group in Finance Division undertakes missions to field offices to provide training and assistance in the set up of accounting procedures.

**93. *I recommend that the Organization continue to take action to strengthen the functioning of the internal control measures in the field offices also through training and on site support to field administrative staff.***

94. The Organization agreed with the recommendation and indicated the steps being taken to further strengthen the functioning of the internal control measures in the field offices.

### **Procurement of Goods and Services**

95. I had, in my long form report on the accounts of 2002-2003 biennium, indicated that the internal controls were weak in local procurement matters and recommended that the Organization should closely monitor compliance with the rules of the Organization by the ROs and FAORs.

96. The field offices have been delegated power to procure services and goods locally up to the ceiling stipulated by the Organization. Guidelines have been issued for establishment of procurement committees, invitation and evaluation of bids, maintenance of vendor lists, maintenance of paper trails and for other measures that bring more transparency to the procurement process. In addition, measures to control fraud were also stipulated in 2005.

97. In most of the field offices audited, the procurement process in general and in particular the preparation of an updated vendor lists, the process involving invitation to bid, comparison of quotations, payment to suppliers, availability of a reliable list of inventories and maintenance of adequate paper trail of the procurement process needed to improve significantly.

98. In some offices, the contractual terms of the supply contract did not indicate the delivery date and in many of the offices the contract did not include a clause for levy of penalty in case of delayed delivery. In a few of the offices, the Procurement Committees had not been set up or were not functional. Most of the offices experienced difficulty in utilising the enterprise wide software system.

99. The Organization assured of further action to address the various points and added that a new CD Rom training tool called *Basics of Procurement at FAO* had been released and disseminated in three languages (French, English and Spanish) to all field locations. Further, the Organization added, a second advanced module (PLP) had also been developed and training sessions carried out. The Organization foresees a plan for the roll-out of the PLP covering the most important field offices for the period 2008-2010.

100. In FAOR Senegal, the crucial controls in the area of procurement were either lacking or were not being enforced: there were frequent instances of vouchers being booked under a line item different from that contained in the related Purchase Order (PO) without any supporting documentation clarifying the apparent discrepancy, there were instances of misclassification of expenditure, payment without FAOR's authorisation and invoices not being stamped as paid.

101. Also in FAOR Senegal, documentation relating to the process leading to issuance of PO (quotations from vendors, indents/requisitions for purchase, Procurement Panel's Report, Comparative Statements etc) was almost absent in all the cases selected in audit. These internal control errors were fraught with possibilities of unauthorized payments, double payments and payments without goods/services having been delivered. The Organization indicated that control measures have subsequently been put in place in FAOR Senegal to reduce the errors related to the payments and that the supplier's invoices were now being stamped as paid.

102. The Organization stated that the RAF pilot workshop on Procurement Procedures held in Accra in 2007 was to be replicated to cover more administrative staff in FAO Representations and indicated a number of training initiatives being taken and expected that these training initiatives, supported by continuous review and update of I.T. systems and guidelines would, in the medium-term, produce significant improvements in the way procurement was currently handled at FAORs.

**103. *Procurement is a high risk category process from oversight point of view. I take note of the action taken/contemplated following the audit of field offices and recommend closer monitoring to ensure compliance.***

104. The Organization agreed with the recommendation, indicated details of action already taken and assured of appropriate further action.

105. Deviations from stipulated provisions were noticed in procurement of services too. Instances of long or repeated engagement of temporary staff, engagement of large number of PSAs for regular staff functions, lack of transparency in engaging National Consultants and Consultants being offered more than one assignment at a given time were noticed. The Organization confirmed that corrective action has been taken on instances of deviations highlighted and that measures to prevent recurrence in future have also been undertaken.

106. The RAP had engaged a firm as the travel agent in 1996. The firm was provided with office space in FAO premises. Under the contract, the concessionaire was to pass on all regular commissions received from the airlines and the Organization was to pay five per cent of the cost of the ticket as compensation fee to the concessionaire. In view of the fast changing nature of travel business and the lapse of 12 years, the terms of the contract agreement with the travel agency needed to be revisited.

107. The Organization assured of pursuing the matter and that the RAP would review its travel agent arrangements in line with lessons learned at HQ.

#### **Timeline and Closure of Field Projects**

108. I had in my long form report on the accounts of 2002-2003 biennium indicated that the FAOR offices needed significant improvement in the implementation of field projects and project management and recommended that the Organization take concrete steps in this area.

109. The Organization issued guidance to the field offices in the form of Field Programme Circulars (FPC). The newly appointed FAORs are given a four-week orientation course at Headquarters. The Field Programme Management Information System (FPMIS) assists in tracking and monitoring ongoing projects and also flags issues for resolution to enable closure of projects whose activities are completed.

110. During the course of audit of field offices the timeline, implementation and the closure procedure of projects, especially the emergency projects was reviewed. Documentation and uploading of information in FPMIS, the enterprise-wide software system, the preparation and timely submission of quarterly and terminal reports and the maintenance of inventory details relating to the projects needed further improvement.

111. In a large number of projects selected, the start date and the end date underwent revisions, sometimes without any budget revisions, owing to delayed implementation. Delay in formal approval of the projects, in ironing out details of the projects with the recipient country, in contracting non-staff resources and in procurement contributed to time overruns which also, consequently, impacted delivery and the benefits reaching the target groups in a timely manner. Although some of the underlying reasons indicated above may be beyond the control of the Organization, and specifically in emergency projects to foresee the true amount of time and effort required to complete an activity with precision may not be easy in all cases, such stretching of the timeline in a majority of the projects is likely to impact the image of the Organization.

112. Effecting closure of projects whose activities have been completed was tardy. The time taken ranged from several months to a few years. Transfer of inventories of such projects and a lack of appreciation of the importance of timely closure of projects contributed to the delay. The Organization

agreed with the need to effect prompt closure of projects whose activities have been completed and indicated that the Organization continued to seek new solutions to this problem.

**113. I take note of the action taken in improving the planning, implementation and closure processes of both technical assistance and emergency projects and encourage the Organization to move forward towards an efficient planning process that aims at time bound delivery, improved documentation and a timely closure procedure.**

### **PART III**

#### **MANAGEMENT MATTERS**

##### **Human Resource Management System Project**

114. A project review of Human Resource Management System (HRMS) project was conducted in audit in April, May and again in October 2007.

##### **Introduction**

115. In 1995, the Organization acquired the Financial and Human Resources packages from Oracle Corporation to replace its legacy systems - the Personnel System<sup>6</sup> and the Financial System<sup>7</sup>. The project of replacing both the legacy systems was to be completed by January 1998. However, during 1998, it was decided that the Human Resources (HR) component would be taken up at a later stage after implementation of the Oracle Financials.

116. A consultant was engaged (March 2001) to prepare a Feasibility Report for the HR project including staff members' entitlements and payroll processing. The consultant recommended pursuing the implementation of the HR Payroll component of the Enterprise Resource Planning System (ERP) based on Oracle (already available with FAO) after considering three options available, namely, (i) Oracle HR/Payroll, (ii) migration to a new I.T. environment and (iii) outsourcing.

117. The same consultant was hired in April 2002 as Project Manager for the in-house implementation of the Oracle HR/Payroll ERP system, the solution recommended by him in his Feasibility Report. The Organizational Project Infrastructure was prepared and a Project Charter was approved by the Oracle Project Management Committee (OPMC). The Project was built around three phases: Business Requirements and Improvements (Phase-I), Design and Development (Phase –II) and Testing and Preparation for Implementation (Phase –III). Phase I was to be completed by May 2003, and Phase II and III by June 30, 2006.

118. The Project was split into seven functional work streams (functionalities) and the cost estimates for delivering these seven functionalities were pegged at USD 22.1 million. In September 2003 a new Project Manager was appointed and the project team strength increased. Overall, 23 per cent of the project staff had no FAO experience.

119. In April 2005, when the project was already into its development phase, the requirement of developing a new Human Resources Management Model (HRMM) was felt in order to incorporate the reforms envisaged by the Director General in 2004 and to exploit the full advantage of the functionalities and capabilities to be offered by the HRMS project. Reflecting the changed framework of the project, a new project plan revised the Go Live date to the end of 2006.

120. The purpose of the HRMM was to define a functional framework that depicted the operational processes, people and technology required to support the provision of HR Services. The HR system coverage was to be extended to include the full range of HR services (for example performance management, HR planning, competency based HR systems and recruitment); shift of resources from

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<sup>6</sup> PERSYS- IT application that stores personal information of staff members and provides other HR services

<sup>7</sup> FINSYS- IT application for processing the payroll of staff members of FAO including the decentralized offices

low value added transaction processing functions to higher value added advisory and policy functions; and implementation of new management information and reporting system. The new model involved Business Process Re-engineering (BPR) exercises to be carried out.

121. The payroll, HR Servicing, HR Development and Position Management functionalities of the project were delivered on March 19, 2007. During the course of audit, components of HR Self Service HR Servicing, Position Management and HR Development functionalities and Leave Management were rolled out to HQ departments and some decentralized offices in stages according to the approved deployment plan. In the case of i-recruitment, a pilot was launched in June 2007 and was not envisaged to be rolled out until 2008. Work on the management information system and reporting aspects of the HRMS were still awaiting finalisation and were not planned to be developed until 2008.

122. The project team was wound up and the project was shifted directly to a post implementation phase. The roll-out of the remaining functionalities was to be monitored and seen through by a newly constituted Post Implementation Operation Committee (PIOC) with representation from all stakeholders. Unlike the Project Team, the PIOC is not an exclusive stand-alone Committee. The PIOC was to report to the Administrative Systems Planning Forum and OPMC.

### **Audit Scope and Approach**

123. The HRMS project was reviewed in audit from a Value for Money point of view. The plans, processes and procedures involved in the project were studied to assess/verify if value in terms of economy, efficiency and effectiveness for the expenditure incurred on the project was achieved. The synergies and gaps between the HRMM and HRMS for delivering value to the Organization were also looked into. Achievements against plan as set out in the Project Charter, the framework finalised for the HRMM and the decisions made by the OPMC were examined. A series of discussions with various functionaries of the Organization including the project-specific personnel was held. The broad leads on the perceptions of end-users including managers about various aspects of the project as captured in an audit administered quick survey were considered. In the case of evaluation of Change Management procedures and controls the best practices contained in the COBIT<sup>8</sup> framework have been drawn upon. The audit covered the period up to October 2007; subsequent developments indicated by the Organization have been taken into account as deemed appropriate.

### **Project Funding and Timeline**

124. The fund requirement for the project was estimated (2001) at a total of USD 22.1 million. Under Conference Resolution 6/2001, USD 25.5 million was allocated for the development of Corporate Administrative Systems, including USD 19.9 million for the HRMS project. The PWB 2002-2003 provided USD 1.8 million for Phase-I of the HRMS project.

125. Although funding was identified as one of the risks in the Project Charter, the project faced funding problems till 2005 when the project was going through the crucial phase of freezing Business Requirements. It was only from 2006 that the Capital Budget was identified as the funding source.

126. The project cost of USD 19.7 million does not include all the personnel costs. Although functionalities such as Performance Management and Policy and Procedures were dropped from the project scope, the cost towards development of their Business Requirements and Improvements amounting to USD 240,000 stands included in the total cost of the project in Phase I, besides costs towards development and testing of these functionalities. However, the cost of testing all the components was not verifiable. As all costs are not captured or if captured, were not being consolidated, it would be difficult to arrive at an accurate and complete cost of the project.

127. The HRMM was conceptualised in April 2005, mid-way through the original project HRMS, and finalised in October 2006. By that time, the Business Requirement phase (As-Is) of the HRMS

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<sup>8</sup> The **Control Objectives for Information and related Technology (COBIT)** is a set of best practices (framework) for IT management created by the Information Systems Audit and Control and the IT Governance Institute (ITGI) in 1992. COBIT provides managers, auditors and IT users with a set of generally accepted measures indicators, processes best practices.



project was already delayed by one year (from May 2003 to June 2004) and the Improvement phase by about six months (August 2004 to February 2005). Timely conceptualisation of HRMM at the Business Requirement phase and before the development phase would have resulted in focused direction to the HRMS project at the development stage so that system changes that were to be carried out at the post implementation stage could well have been taken on board at the development stage itself resulting in efficiency gains.

128. After a delay of three months from the revised Go Live date of December 31, 2006, HRMS was rolled out with reduced deliverables, phasing the roll-out of the functionalities over a period of time and concentrating more on work-flow automation rather than process re-engineering. The project team was disbanded declaring a post-implementation phase although several functionalities were under various stages of development and testing and the roll-out/deployment had already been staggered.

129. The Organization felt that once the HR modules went into production as part of the integrated ERP system, any changes to those components within the system had to be centrally managed by the units responsible for on-going support and therefore viewed the continuation of the project structure as not appropriate.

***130. The launching of a project as important as the HRMS without first ensuring a timely source of funding led to a weaker sense of ownership of the project that impacted adversely on efficient project formulation and implementation. I recommend that the Organization should in future consider committing to launch a project only after identifying a dedicated and time bound source of funding for the entire project.***

131. The Organization agreed that tracking internal costs would provide a more complete and comprehensive overview of total project costs and noted that future IT projects could consider such an approach to capture full project personnel costs to facilitate comprehensive and accurate cost/value analyses.

### **Mapping with Organizational Objectives and Streamlining of Business Processes**

132. The Feasibility report prepared by a consultant in 2002 had stated that “the general implementation of the Oracle HR/Payroll was to be adopted to the specificity of FAO”. The Project Charter reiterated that Business Requirements and Improvements (Phase I) was an absolute prerequisite to the development of a user-driven human resources management system confirming to FAO’s human resource business requirements. Thus, technology was only to be the enabler and not the end result in itself. Work-flow automation, at best, supports and in some cases, facilitates decisions of the process owner.

133. In 2004 the Director General announced his vision of FAO Reforms comprising initiatives to improve HR services and increase efficiency in order to better achieve FAO’s strategic objectives. In December 2005, the contract on HRMM was awarded to an external agency. The scope included development of an implementation plan for the HRMM and partnering the actual implementation of the HRMM along with the Project Team, including the completion of policy and procedural revisions necessary to finalise the HR business requirements and completion of process definitions. In effect, HRMM was to deliver the business process duly re-engineered/re-designed so as to derive the maximum benefit out of the HRMS project.

134. The external agency provided input on further streamlining business processes by revisiting the ‘As Is’ and ‘To Be’ documents previously defined by the HRMS project. The processes essentially to be re-engineered and finalised were: delegation of powers, approval chain, Service Level Agreements (SLAs) and a framework for integration with the main ORACLE Financials. Business processes were to be appropriately re-engineered to exploit the full advantage/scope of HRMS.

135. The extent of the tasks involved in terms of changes to current business practices inherent in introducing a range of new functionalities not previously existing in the Organization was not fully recognised in the early stages of the project. Towards achieving this objective, the external agency

was hired. But as the project was getting delayed, it was decided to temporarily adjourn full implementation of the prescriptions of the external agency. This decision resulted in delivery of functionalities that were more aligned to the Oracle HR business suite rather than to the strategic Organizational objectives. In the end, most of the functionalities delivered had scope squeeze with future improvements being left to be taken care of through system change requests (SCRs) mode, a rather unusual method.

136. The Organization clarified that HRMS was configured following the standard Oracle functionality, rather than customizing the software to the Organization's business requirements. The Organization added that business owners and Board members were informed of the major gaps identified between the requirements and the delivered functionality and the SCRs were subjected to a systematic process of review and approval for development by the PIOC. The Organization agreed to implement a mechanism for close monitoring of added functionalities pending availability of resources.

***137. A project meant to bring in BPR to better achieve the Organization's strategic objectives through increased efficiencies, has mainly resulted in automation primarily aligning it with the Oracle functionalities leaving the system changes to be brought about after the closure of the project through SCRs. I take note of the action being taken to recognise the portions of the packaged solution that do not match well with the Organization's overall business objectives and to mark them for customisation and recommend that in respect of customisations that are not possible due to cost or time issues, the risks involved should be recognised, accepted and approved at the appropriate level.***

#### **Estimation of Efficiency Gains**

138. The OPMC discussion document – 'HRMS: Cost Benefit Analysis' stated that there would be "Reduction in direct costs of HR staff" and "Reduction of time taken by departmental staff in supporting manual HR processes" under 'tangible benefits'. However the Organization felt that it would be extremely difficult to translate the efficiency gains in person-months as the reduction in processing time was likely to allow individuals to dedicate time to other programme activities rather than saving specific posts. The Organization added that with many staff reductions due to budget cuts, it was certainly difficult to assess if these were due to the introduction of the HRMS. The delivery of this functionality thus did not exploit the full advantage of the HRMS implementation.

139. It was foreseen in the Improvement Draft that more than 2600 days of elapsed time could be saved through speedier approval process and delegation of authority and in addition, significant administrative work could be saved by empowering initiators, budget holders and MSS to process certain requests. However, the Organization stated that as the Post Management module was to be rolled out to the line managers later, a realistic assessment of savings and the impact could be possible only in the second half of 2008.

***140. A viable mechanism that takes into account, inter alia, the reduced functionalities rolled out, the cost of resolving Problem Reports and System Change Requests and the cost to various Divisions in the process leading to the roll outs, past and future,, would be necessary to arrive at any meaningful estimate of savings or efficiency gains, if any. I recommend that:***

***(a) such a mechanism be put in place:***

***(b) a review of the To-Be and Gap Analysis documents and improvement proposals vis-à-vis what have actually been delivered and what remains to be delivered should be carried out by the process owners; and***

***(c) a policy note should be prepared on what can be achieved from among pending deliverables emerging from (b) above and signed off at appropriate level.***

141. The Organization noted the recommendation and indicated that appropriate follow up action would be taken.

### **Shared Services Centre**

142. The Conference by its resolution 6/2005 had authorized the establishment of the Shared Services Centre (SSC). The primary services to be provided by the new SSC were in the financial, human resources, and travel areas. The objective of the SSC was to improve the efficiency of administrative transaction processing services in order to achieve budgetary savings and improve service quality. It also aimed at providing full transparency and accountability for service levels. Substantial saving of USD 8 million per biennium was to be achieved by configuring the services across three hubs supervised from a centre in Rome. The SSC at Rome started functioning from 1/1/2006, that is during the period when the HRMM was being finalised.

143. The SSC came into existence without setting up of any of the benchmarks/standards regarding its performance and efficiency in delivery of services. The SSC was to sign Service Level Agreements (SLAs) with the clients for ensuring economy and efficiency in delivery of services and performance. However, the SLAs were yet to be concluded. In the absence of these, it would not be possible to evaluate the efficiency or savings that result from operation of SSC. Similarly, performance indicators (for efficiency and quality of service, transparency, accountability) and benchmarks for measuring the performance of SSC were not identified. Nor was a linkage with the corporate data warehouse set up for generating complex MIS reports for HR planning and management activities, one of the objectives of HRMS.

**144. (a) I recommend that the SLAs be finalised and benchmarks for various identified and accepted key performance indicators determined.**

**(b) Not making use of the corporate data warehouse may become an impediment in the successful functioning of the SSC as well as HRMS. I therefore recommend that the Organization consider expanding the corporate data warehouse at the appropriate time.**

145. The Organization agreed with the recommendation and indicated that subject to availability of resources, priority would be given to delivery of a consolidated Data Warehouse and implementation of a Business Intelligence platform in the 2008-2009 work plan and added that SLAs were planned to be defined in all areas of services provided by the Shared Services Centre.

### **Infrastructural Adequacy**

146. The success of the HRMS project in the field offices is critically dependent on the availability of the system to users located in these offices. Maintaining the uptime of the WAN infrastructure, with sufficient capacity, through which all the functionalities would be available to these offices is essential. In my long form report for the biennium 2004-2005, I had highlighted the need for the Organization to continue to monitor closely the progress regarding adequate technological infrastructure for HRMS to be successful both at Headquarters and at the field level. As indicated in paragraphs 81 and 82 of this report, the reliability and performance of the infrastructural connectivity of the field offices varied.

147. The Organization had determined that the minimum desired connection speed for the Regional Offices (ROs), the Sub-Regional Offices (SROs) and FAO Representations (FAORs) to be 384 kbps, 128 kbps and 64 kbps. By October 2007, all the ROs, six out of nine of the SROs and 60 out of 78 FAORs had established the minimum desired connection speed. All the offices in Europe, Latin America and Asia & Pacific and half of the offices in Africa and Near East were to be covered in implementation of HRMS in stage one.

148. Laboratory tests were performed using the WAN simulator package "The Cloud" by which various latencies, data rates, competing network loads, and packet drop rates could be simulated and performance compared with a baseline established. These lab tests were being confirmed by live tests.

The deployment plan of roll-out of various functionalities had, however, already been finalised in September, 2007 and the roll-out in decentralized offices were to start from October 2007.

149. The training ideology of the Organization centres around the 'just-in-time' strategy. The draft deployment plan had proposed that training to all the staff members (including those in smaller offices) would be provided at the same time in order to maximize the training resources. But the absence of reliable and adequate connectivity would lead to reduced effectiveness of training that would impact the effective utilization of HRMS. This would also entail additional costs for training on subsequent dates.

**150. *HRMS has a vital role to play in the process of decentralisation. Connectivity and adequate capacity of the field offices would be pivotal in determining their ability to optimally utilise HRMS. I recommend that this crucial aspect be focussed upon and prioritised so that the project does not end up as a costly IT oriented exercise for use by HQ and SSC. I further recommend that:***

- *the analysis of the lab tests and live tests carried out from country office desktops may be analysed so that post roll-out problems, if any, in this regard are minimised;*
- *before rolling out HRMS functionalities to offices which are dependent upon ISPs it should be ascertained that these ISPs are sufficiently sized and have suitable performance levels so that the effective functioning of the HRMS in these offices is assured; and*
- *the Organization revisits and examines whether the defined desirable connection speed is indeed adequate given the additional functionalities rolled out/to be rolled out.*

151. The Organization agreed that HRMS deployment decisions should be reviewed based on workload of offices, number of staff administered, functions and transactions performed, in order to analyse cost and finalise deployment decisions. The Organization further agreed that the rollout of HRMS functionalities to ISP dependent offices must be executed in a considered manner and added that site-by-site verification was being undertaken.

## **User Involvement**

152. Adequate user involvement and smooth change management was critical for the new system. In my long form report for the biennium 2004-2005, I had highlighted the need for the Organization to establish a comprehensive plan for user involvement - particularly users from decentralized offices- so that major and costly changes in the system at a later date is avoided. The Project Charter stipulated identification of representatives from all user groups affected by the new system and to commit them fully to the project. The user communication was to occur at three different levels, viz. General staff, ADGs and staff having specific knowledge. For this HR User Groups (HRUG) with key representatives from all the three groups were formed. The HRUG was to meet on a monthly basis and minutes of its meetings were to be circulated to the project management and the project team.

153. Though the concept of HRUG and user involvement was introduced with specific purpose and pre-defined role, involvement of users, particularly the end users, at the crucial phase of development, testing and roll-out was negligible. Involvement of users was mainly limited to the business offices and the process owners. A more vigorous involvement of the client/ end users, especially at the To-Be and development phase would have made the final product more acceptable to the end users.

154. During a quick survey conducted by audit, the majority of the end-users felt that they were neither involved at the beginning of the project nor during the development of the system or even while designing the user interfaces. They also stated that they were not given adequate training. The majority of staff (end-users) also felt that the system was not user-friendly and more time was required to get used to the new system. Though these are perceptions from a very quick survey, the top management could take leads from these responses in re-designing their communication policy.

## Testing

155. The Testing Requirements and Strategy in the Project Charter had detailed the testing events and specified the number of iterations to be carried out before rollout. The details of some of the tests carried out and the number of iterations for each of the tests were not verifiable. The Organization clarified that unit testing was in actual fact carried out before rollout, although such tests were not necessarily always documented and tracked in a standard manner across work streams.

156. There were many “Issues” before Go-Live and further tests were called for especially in areas like Payroll Calculation, Payroll Payment and Payroll Accounting. In the five months following the Go Live of the Payroll functionality, 90 ‘Top’ and ‘High’ category Problem Reports (PRs) were logged. Most of the PRs were addressed subsequently through the mechanism of SCRs though this is not the preferred mode of resolving problems since most of these problems were foreseen and should have been taken care of at the design and development phase, particularly those which had been identified before going live. Addressing such issues through the SCRs method brought in additional costs to the Organization though not to the project, since the project was officially treated as closed.

***157. I recommend that all the tests as per the Testing Requirements and Strategy documents be carried out on the remaining modules/functionalities before rollout so that the business objectives of HRMS are fully achieved and spill-over costs are minimised. I further recommend that end users be more effectively involved in the project.***

158. The Organization agreed with the need for adherence to well defined testing requirements and strategy in further HRMS rollout and added that resource constraints had not allowed full development, test and rollout of HRMS functionalities. However, the Organization noted that all changes were subject to rigorous testing as per the latest procedures and that many end users were involved in the final HRMS test and continued to be involved in system change tests.

## Change Management

159. The change management procedure has not been formally published. The project level risks identified at the beginning in the Project Charter stage remained and impacted the project. A change management strategy incorporating such controls so as to mitigate the already identified project risks should have been put in place. A risk matrix/grid was not formulated. There was no Organization-wide Change Management policy covering all the activities in the Organization, an essentiality in view of several systems in operation/under implementation in the Organization, most of which are inter-dependent. Though a Change Request Process summary mechanism and review was put in place after the rollout through e-mail in April 5, 2007, a much more effective method of communication was called for. Further, the e-mail notification was not followed up by formulation and notification of a formal policy approved at the appropriate level, as was foreseen.

160. The policy relating to configuration management had not been formulated and notified. In its absence, the efficacy of the change management system and procedures may be affected. Configuration was being managed on system by system basis and there was no central configuration management approach that could effectively utilize a central repository across IT items (systems, infrastructure, documentation). The Organization agreed that configuration management was a fundamental process that needed to be established, but noted that the process was resource intensive and could not be effectively and fully established at the current resource levels supporting the system.

***161. I recommend immediate formulation and effective communication of a formal and comprehensive change control policy for Oracle HRMS. I further recommend that the potential serious risks of the absence of an established configuration management policy specifying the baseline and the approach to handle change must be recognised and accepted at the appropriate level.***

162. The Organization agreed with the importance of formulation and communication of a change control policy for Oracle HRMS, and noted that such a policy had been defined and would shortly be published on the Organization’s Intranet and added that in recognition of the importance of effective

methods of communicating organisational and process changes efforts were being made to develop a communication strategy.

### **Training Management**

163. Though not in line with the Training Plan and the Training Strategy of the Organization, an amount of nearly Euro 0.3 Million (14 percent of the total training cost), had been spent till November 2007 on hiring external trainers to impart training to the users of HRMS. The Organization stated that the Project staff was fully occupied with delivering HRMS, except for two of the trainers who were ex-HRMS and that the Project staff contributed to the 'Meet the Expert' sessions.

164. An e-learning site was set up to assist the users. During 1 May 2007 to 21 September 2007, the total visits to the e-learning site, involving 964 unique visitors, was 2357, averaging 16 visits per day. Of the unique visitors, 581 visited the e-learning site only once. One of the reasons for lack of adequate interest could be currency of the training material. In the quick survey conducted, while majority of the managers responded that they had been given training, the staff relied on help from peers. This indicated inadequate training engagement of staff in areas such as Self-Service, Leave Management System etc. where staff were the actual end-users of the system. The Organization stated that extended mandatory contract breaks for the short-term staff/consultants responsible for the site exacerbated this issue.

165. The Organization indicated that a mechanism for management and staff to identify emerging training requirements had been established. The Organization added that feedback from all training participants was solicited and that an electronic form was being developed to replace the paper based evaluation forms.

### **Monitoring and Evaluation Mechanisms**

166. Going in to a post-implementation phase even when several functionalities were yet to be rolled out in full and to disband the Project Team may also result in control difficulties while rolling out new functionalities or developing others. A number of known problem areas identified before rollout remained unresolved at the time of going live. This in essence has the potential to give rise to design flaws at the post implementation stage. The unresolved problems would have to be handled through SCRs; such a methodology carries with it the risks of loss of control and cost increases

167. A process that would help measure performance against expectations had not been built into the system design nor envisaged in the post implementation phase. Evaluation of the efficiency and benefits of various functionalities as compared to the pre- implementation environment had not been carried out. Ideally, these parameters/indicators should have been finalised and benchmarks fixed prior to implementation. Organization stated that the SSC was in the process of resuming workload analysis reports that they would be used in Rome and in Budapest as a measure of processing costs and potentially, of savings.

### **Conclusion**

168. The full value for money on HRMS is yet to be realised. The functionalities need to be made complete. Business processes need to be re-engineered to support increased delegation and shortening of approval chain. MIS reports have to be generated and made use of in HR servicing. The Organization should eventually concentrate its actions in aligning the functionalities to the overall organizational objectives. A performance evaluation mechanism of the services being provided should be put in place to measure delivery of services against benchmarks and base-line historical data. The responses derived in the audit administered quick survey could be analysed by the Organization for leads in strategies towards user training and involvement.

169. The Organization stated that the Administrative Systems 2008-09 Plan was being finalised and a systematic review of the administrative systems projects and related HRMS work outstanding was

being completed to be followed by agreement on the priorities and allocation of funds. The Organization added that other external drivers (such as IEE recommendations and ongoing Reform initiatives) would need to be taken into consideration and balanced against administrative applications and systems priorities. The Organization added that it was intended to use surveys in the future as a means of getting user feedback.

### **Oracle ERP Financials**

170. An Information Technology audit of the Oracle ERP Financials was conducted from 10 September to 5 October 2007.

### **Introduction**

171. The Oracle System was implemented in two phases: the first phase, introduced in 1999, concentrated on the financial stream of the Organization's business processes. The second phase, introduced in 2007, covered the Human Resource and Payroll components.

172. The main Oracle System is the Organization's Administrative Resource Management System. It uses Oracle E-business suite 11i ( version 11.5.10). The system has Financial, Human Resources and Procurement modules. In addition, the Organization has several satellite administrative and operational systems: Field Accounting System (FAS), travel operations (ATLAS), Programme Planning Implementation Monitoring and Evaluation Support System (PIRES) and Country Offices Information Network (COIN).

173. The draft plans under consideration for the period 2006-2011 foresee exploiting the still unused functionalities of the ERP to improve business processes, taking advantage of the technological opportunities provided by the ERP to implement new enterprise modules and applications; integrating the functionalities of the core satellite systems into the main ERP; expanding and rolling out the existing ERP application to the parts of the Organization not covered as yet; and improving the coverage, quality and accessibility of the management information provided by the ERP.

### **Audit Scope and Approach**

174. The Information Technology (IT) audit of Oracle ERP system relating to the financial stream implemented during the first phase covered the period up to October 2007; subsequent developments indicated by the Organization have been taken into account where appropriate. The process of system enhancement was examined and the controls implemented to ensure information security and change management were reviewed. The data base was queried using SQL and analysed, documentations available on the policy and practices relating to the ERP system were examined and discussions held with the Management. The two reports of the AUD: 'AUD 2806 (30/6/06) - Oracle Database Security' and 'AUD 2906 (27/12/06) - Oracle Security Administration' were taken into account.

### **Field Accounting System Replacement Project**

175. The Field Accounting System (FAS) was introduced in the field offices in 1999 as a single user PC- based system with regular data uploads/downloads to/from Oracle ERP. This system underwent many revisions over the years. In 2004, the FAS Replacement Project was set up to identify and implement a solution that better met the needs of the Organization. The replacement project was planned for implementation in three stages over approximately 24 months, to be completed by September 1, 2006.

176. A Project Board and a Project Manager along with other members of the Project Team were appointed for the management of the project. The overall project control was to reside with the Project Board. The progress of the FAS Replacement Project was to be reported to the Oracle Project Management Committee (OPMC).

177. In February 2005 the OPMC had noted that the FAS replacement project was to last approximately 24 months with a target of implementation by the third quarter of 2006. After this meeting, the issue of FAS Replacement Project was not discussed by the OPMC and the OPMC took a less proactive role in the project with subsequent meetings focussed on other Organizational initiatives.

178. Gradually the implementation of FAS replacement Project began to lag. A new Project Plan submitted in February 2007 anticipated the system implementation to be completed by 31 September, 2007 with phased rollout beginning on 1 October, 2007. However, by April 2007 a further slippage of four months was foreseen.

179. The Organization indicated resource conflicts with other major projects such as HRMS, dependence of the technical solution on the prior implementation of the HRMS project and a requirement to review the impact on field office business requirements of major activities associated with the reform proposals as the main factors that had contributed to a delay in the project activities against the plan.

180. After the completion of the audit, the Project Board suspended project activities until the requirements and implications arising from the IPSAS Project and IEE recommendations were confirmed, given their significant system and procedural implications for decentralised offices, and requested that a revised project plan prepared.

***181. I observe that the drivers for the decision to hold back for the present, proceeding with the FAS Replacement Project pending a review of other related developments were present and known much earlier. I recommend that, looking forward, the need to launch a new project or the need to continue with the one that has been launched should be assessed in the light of other activities /initiatives of the Organization.***

### **Change Control Procedure in Oracle**

182. The objective of the new policy on Change Control Procedure that was being finalised was to complement the Organization's internal control environment by preventing loss, unauthorised modification or misuse of data in the administrative application systems and to ensure that the administrative applications continued to meet the Organization's business needs. Until the new policy is formalised, the control process as stipulated in the Change Control Procedure Summary is to be adhered to.

183. The Organization put in place a software development workflow tracking system, 'Team Track', in March 2007 for logging and recording all System Change Requests (SCRs) and Problem Reports (PRs) in order to control and monitor changes to the existing application systems. The SCRS/PRs are distinct entities approached in separate ways. PRs are identified issues with the current system configuration and are part of on-going system support. On the other hand, SCRs are part of a defined work plan set at an Organizational level by business units; they are not part of on-going support.

184. The business units, through the Administrative Applications Control Unit (AACU), classify the SCRs and PRs based on their urgency / criticality to the business processes, subject to a technical review by the Information Technology Division (KCT). Depending on the 'severity', the SCRs/PRs fall into one of the five classifications: "Critical", "Top", "High", "Medium" or "Low". The development, configuration and implementation of all authorised changes are performed by KCT.

### **Data Analysis of Pending SCRs and PRs**

185. A data analysis of 254 SCRs as of October 2007 indicated that on an average, out of 10 SCRs logged, four were closed per week. Of the 50 'Critical 'or Top' severity SCRs open, 31 were submitted in March/April 2007 with 28 of them being identified as 'medium or low complexity'. A similar analysis of 518 PRs indicated that, on an average 20 PRs were logged and 11 closed per week.



Six of the “Critical” severity PRs were open with an average time lapse of 55 days. Out of the 97 “Top” severity PRs open, 13 were submitted in March/April 2007; 12 of them were of ‘medium or low complexity’. The Organization needed to develop ways and means to further reduce the time taken to close the SCRs and PRs

186. Area-wise analysis of SCRs and PRs logged after March 2007 showed that 92 SCRs and 151 PRs related to Oracle Financials and older applications. The rest were in HRMS area. Given the level of maturity and stability the Oracle Financials, introduced in 1999, should have in the production environment, the proportion of SCRs (36 per cent) and PRs (29 per cent) to the total cases reported is significant. The Organization indicated that the reason for the relatively large number of PRs and SCRs in the Financials area was largely due to the code freeze period during the HRMS project. The issue, however, needed to be revisited by the Organization.

187. All SCRs and some of the PRs require the business units to provide a description of ‘functional specification’ for development. The business units, however, do not have the resources or adequate skills to fulfil this requirement. Although the mechanism of loaning KCT analysts to help with the preparation of functional specifications had worked in the past, an appropriate mechanism needs to be evolved for future.

### **Emergency Changes**

188. An incident that is high impact, either on account of the number of users or the critical systems or services affected, would call for an immediate response. The decision as to whether a given incident is an emergency should be guided by well defined criteria as the emergency changes circumvent the normal technical and operational processes. Therefore, it is a good practice to have in place a formal emergency change process so that a high-priority change flows through quickly, the risks are properly managed and the closure of the emergency change is well documented.

***189. I recommend that the Organization enhance the capacity of the business units to enable them to prepare change request specifications. I further recommend that the Organization introduce a formal emergency change procedure.***

190. The Organization agreed with the recommendation and indicated that a process for implementing emergency changes to the production environment after development had since been introduced, that it would take forward the training of business units subject to availability of resource and that a formal emergency procedure would be defined in 2008.

### **Database and Application Security**

191. The access control mechanism assumes significance in ERP system as it is an integrated system. Inappropriate access in any of the layers, i.e., operating system, database or application, has the potential to lead to breach of confidentiality and compromise the integrity of data.

192. Password controls, inactivity-time-out of a user, definition of the maximum number of allowable concurrent sessions for an individual user and specification of the number of attempts to login are some of the lines of defence in protecting a database against unauthorised access. It is for the administrator to set the parameters of the user profiles. However, the parameters were not set in these profiles.

193. The default setting in Oracle under the profile ‘RESOURCE\_LIMIT’ is that there is no limitation on the use of resources by any one user. Therefore, limits should be in place to prevent users from becoming ‘resource hogs’ impacting the performance of the database. The Organization recognized that although this would be a more effective administration of the database for performance purposes, it could not be achieved with available resources. The Organization further stated that in lieu of such a course of action and to monitor performance, alerts/reports on the usage of resources for queries running in the system were being generated on a daily basis and action taken when performance was impacted.

194. In environments where users are granted direct access to SQL editors, they can bypass the controls within an application by connecting directly to the database. To control this risk, options can be set using PRODUCT\_USER\_PROFILE table restricting indirect access to the database. However, this feature had not been put to use. The Organization stated that the management of the profile could be a more effective approach but would need additional dedicated resources in the Data Base Administrator (DBA) team.

**195. I recommend that the Organization reconfigure the values of parameters in user profiles reflecting security requirements of the system, balancing security with usability and ensuring better access controls. I observe that setting resource limits help ensure that the application or user does not intentionally, or inadvertently, take over the database and system's resources and recommend that the Organization should consider ways of setting resource profiles to limit the use of database resources.**

196. The Organization agreed with the recommendation and indicated that the recommended changes would be implemented after the update of the technical baseline, balancing security with usability and ensuring better access control during 2008-2009.

### **User Authentication**

197. Access to Oracle E Business Suite ERP System (Administrative Resource Management System) is based on responsibilities assigned for various modules. There were 2899 active users of the Financial applications. Access to the financial systems was granted on business need basis and users were granted individual accounts based on their roles. A monthly monitoring of access records was being conducted by AACU.

198. As per the standard operating procedure the end dates were not routinely applied to staff member accounts. Out of 2899 active users, more than 81 per cent do not have an end date applied to their user accounts. An analysis of the user account records showed that there were 38 users who had last logged into the system prior to 2007. Out of the 38 users identified some users had logged into the system for the last time during the year 2002 or earlier with assigned responsibilities that required regular access to the Oracle Financials system. Five active user accounts belonged to staff members whose services were terminated. I note that the Organization took immediate action to end-date these five active user accounts.

199. 'Access Audit and Review procedures' as adopted by the Organization provide that the passwords expire in line with the defined financial system access control policy. In the case of Oracle financials, account passwords are to expire every 30 days. Analysis of relevant data showed that there were 24 user accounts having no limits on the password expiry. Immediate action was taken to correct two of these accounts. The Organization stated that the remaining 22 accounts were system accounts that were needed for Oracle to work and that the NTE was deliberately not set to ensure uninterrupted availability of system and all the functionalities.

200. The Access Audit and Review procedures also provide for system monitoring for effectiveness and conformity to an access control policy. Although as part of system monitoring the failed login attempts are to be reviewed, this was not being complied with on a regular basis.

**201. I observe that there is a gap in the practice of granting and monitoring system access as compared to the stipulated safety procedures. I recommend that the Organization review the position relating to stipulated procedures and evaluate the practices, standard or otherwise, from system security point of view.**

202. The Organization concurred with the recommendation and indicated that efforts would be made to implement the recommendation as a matter of priority.

### **Generic User Accounts**

203. An analysis of the application users' database indicated that, as on 24 September 2007, there were 103 generic user accounts created for varying responsibilities and most of these generic users were perpetual active users. Most of the generic users pertained to FAORs but there were some generic user accounts created for responsibilities that were assigned to specific users. The Organization assured of continuing its effort to reduce the generic accounts to the minimum possible.

#### **Enabling Object Level Audit Options**

204. An 'Object' is an allocated region of memory storage. To control the risk that objects may present to the database, audit trails should be set. As the setting of these audit trails would be based on business rather than technical requirements, the business units needed to specify the objects to be enabled for capturing audit trails. The Organization stated that pertinent activities would be followed-up in 2008 subject to the efforts required to support business units' requirements.

#### **Critical-Patch Updates**

205. A Critical Patch Update (CPU) is a collection of patches issued by Oracle to address multiple security vulnerabilities. It can also include non-security fixes that are required (because of interdependencies) for application of the patches. A CPU patch for Oracle E Business Suite is not cumulative, i.e., the latest CPU will not include fixes for all earlier CPUs. During 2007, three CPUs involving a total of 132 fixes had been released by Oracle. The Organization stated that applying CPUs for Oracle products was an issue that had been recognized as extremely important and an approach on how to proceed was currently being shaped.

#### **Business Continuity Management**

206. Oracle E-Business Suite has a number of modules covering a broad range of business processes and a large integrated database. All the modules and data are logically intertwined. The Organization foresees reducing dependence on satellite systems for core business processes by integrating their functionalities into the ERP. These characteristics point towards a major risk of single point of failure. Therefore, the development of a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for the ERP assumes significance.

207. The Organization had put in place some stand-alone measures like fully redundant UPS power, production servers with high degree of internal redundancy, up-to-date fire detection and suppression, physical security and intrusion detection, a documented backup policy which includes taking cold back-ups on a weekly basis and daily export procedure to save critical schemas.

208. Although the Organization did store the back-up tapes offsite, the restoration procedures of data backup were not documented. The Organization indicated that the BCP and DRP were yet to be developed as resources were unavailable.

***209. In view of the integrated nature of ERP system, a Business Continuity Plan and a Disaster Recovery Plan for IT are of crucial importance. I recommend that the Organization should revisit the issue and either take immediate steps to put a BCP and a DRP in place or clearly recognise and accept the risks associated with not having a BCP and a DRP in an ERP environment .***

#### **The Chart of Accounts**

210. The Chart of Accounts (CoA) determines how the accounting information is collected, categorized, and stored for reporting purposes. The account numbers are composed of segments, called an accounting 'flexfield'. All the accounts are identified by a unique accounting flexfield key (AFK) combination. The AFK values are defined during the setup and creation of the CoA. Once created, the AFK values cannot be easily deleted without risking the integrity of the entire application. Incorrect account codes are therefore disabled.

211. Within Oracle Financials, cross-validation rules (CVRs) are used to prevent the creation of invalid AFK values, i.e., account codes not permitted by the business rules. The CVRs are applied across the system to the activities of all users. Unless a transaction has a valid AFK value, the Oracle system does not allow the process to continue.

212. An analysis of the AFK values indicated that 13 flexfield combinations were in violation of CVRs. While the transactions posted to such combinations may refer to the initial period of Oracle Financials implementation when CVRs were in some cases relaxed to allow accounting for transactions and closure of ledgers, the presence of active records makes it all the more necessary that all such combinations that conflict with CVRs need to be disabled.

**213. *I recommend that any code combination created that violates the cross validation rules should now be disabled and the process documented for oversight purposes.***

214. The Organization agreed with the recommendation.

### **Segregation of Duties**

215. The Organization's Access Control Procedures for Oracle Financials provide that the level of access granted must be appropriate for the business purpose and must not compromise the principle of segregation of duties. Exceptions permitted to these rules on a case by case basis need to be documented. The Organization concurred that segregation of duties was a crucial internal control mechanism and noted that periodic reviews of exceptions were planned as part of the 2008 work plan priorities, and would be performed subject to availability of resources.

### **IT Governance**

216. The Organization has a number of Senior Management Committees dealing with IT areas: the OPMC, the Corporate Communications Committee and the World Agriculture Information Centre (WAICENT) Committee. In addition, there are other committees, for example, the Information Security Committee, Management Information System Interdepartmental Working Group (IDWG); Field Program Management Information System; and the IDWG on Programme Planning, Implementation Reporting and Evaluation Support system that are concerned with areas/activities that place demands on the IT systems' resources.

217. The Organization is embarking on a wide variety of changes: implementation of the Reform proposals, IPSAS, HRMS, FAS Replacement and the recommendations arising from the report of the Independent External Evaluation. These would bring about, inter alia, changes/modifications in business process, models and framework. One of the enablers of effective change management would be the Information Technology framework.

**218. *In the light of the increasing demands on the IT System's resources, I recommend that a high level cross cutting IT governance mechanism that can consider and prioritise the competing demands be considered in the ongoing process of review of IT governance in the Organization.***

219. The Organization clarified that a new IT governance structure that is being finalised would have more active committees with the appropriate level of roles and responsibilities, and that would assist in prioritising competing demands on Organizational resources.

### **The Functioning of the Internal Oversight Mechanism in the Internal Audit Department and the Local Audit Programme**

220. A Value for Money (VFM) audit of the 'Functioning of Internal Oversight Mechanism in the Internal Audit Department and the Local Audit Programme' was conducted during 5 to 30 November 2007.

## **Introduction**

221. The oversight framework of the Organization comprises two components: internal and external. The internal oversight is by the Governing Bodies, Audit Committee, the Office of the Inspector-General, FAO Evaluation Service and the Local Audit Programme. The External Audit provides complementary external oversight.

### **Internal Audit**

222. The internal audit function was established in July 1947, in accordance with the Financial Regulations of the Organization. Over time, the profile of the function has undergone a series of changes in respect of its place in the organizational structure, terms of reference, reporting lines and staffing. In October 1997 the title of the head of office of Internal Audit Department (AUD) was changed to Inspector-General.

223. On 1 February 2000 the Charter of the Office of Inspector-General was adopted, setting out the mission and scope of work, accountability, authority, independence, responsibility, communication of results and practice standards. The Office of the Inspector-General has the responsibility for internal audit and investigation as well as monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. The Inspector-General is solely responsible, and reports directly, to the Director-General. At the end of each year, the Inspector-General prepares an Annual Report to the Director-General on the activities of the Office for presentation to the Finance Committee. The AUD seeks to adhere to the internal auditing standards promulgated by the Institute of Internal Auditors.

### **Local Audit Programme**

224. In 1994 the Organization embarked on its restructuring to decentralize operations, streamline procedures and reduce costs. A direct result of the decentralisation process was that the documentation supporting the accounting functions was retained at the local offices. Following the decentralization of the field offices and subsequent change in the control structure, the Organization put in place a Local Audit Programme (LAP) in 1995.

225. The aim of the LAP is to enhance the financial processing and control environment of the field offices by strengthening accountability for the completeness and correctness of the local accounts and to improve the internal control. The Local Audit Programme spans 77 FAO Representations (FAORs), nearly 600 projects, 220 bank accounts and over USD 275 million in annual expenditure. The countries where the regional and sub-regional offices are located are covered by AUD and are excluded from the scope of LAP.

226. The scope and frequency of the LAP was substantially revised in 1999 following the recommendation of the External Auditor. From July 2004, the local audit periodicity came to be based on the amount of annual disbursements by country, i.e., FAORs with programmes up to USD one million to be audited yearly and countries with such programmes above USD one million to be audited quarterly. Local auditors were contracted to undertake site visits to verify the related documentation held on-site.

### **Audit Scope and Approach**

227. The Value for Money audit of the functioning of Oversight Mechanism in Internal Audit Department and Local Audit Programme covered the 2006-2007 biennium; subsequent developments indicated by the Organization have been taken in to account as deemed appropriate. Wherever relevant, earlier periods were revisited to analyse trends. The audit included examination of the records and documentation available with AUD and the analysis of the Decentralized Accounting Group Accounting System database. Discussions were held with key managers in AUD and Finance Division and the review reports of the Institute of Internal Auditors on the quality of the internal audit reports were taken into account. The audit did not cover the investigation activity nor the Evaluation

Service. My observations and recommendations relating to AUD and LAP are presented under their specific headings.

## **Internal Audit**

### **Audit Planning**

228. The Programme of Work for the biennia 2004-2005 and 2006-2007 containing the planned activities, the revisions to the annual plans, the Annual Activity Reports for the years 2004-2006 and the Quarterly Progress Reports were reviewed.

229. Certain assignments proposed in the initial targets in the Programme of Work, were not included in the initial work plan or although included in the initial work plan were dropped from the revised work plan. The revisions to the work plan were mainly due to unplanned activities. Analysis of the risks associated with not pursuing the assignments initially planned relating to high risk areas identified was not carried out. The justification for changes in audit plan needed to be more comprehensively documented.

230. The Annual Activity Report up to 2004 submitted to the Finance Committee showed the planned and unplanned activities separately. However, the reports to the Finance Committee from 2005 onwards were limited to a statement on the reports issued. In this connection, I note that the relation between internal audit planning and the Governing Bodies is being currently reviewed in the context of the Independent External Evaluation (IEE) and the Reform process.

231. The Internal Audit Manual stipulates that an audit is to be undertaken where there is sufficient risk to warrant assurance activity over time. However, the periodicity of internal audits for country and project offices stipulated in July 2004 were based on the quantum of disbursements of the FAORs.

232. The roster of audits undertaken indicated that some of the risk areas had not been audited over a long period of time. For instance, the FAO Representation in Mali, a high risk area, was undertaken in 2008 after a gap of more than 10 years. Four FAORs classified as medium risk have not been audited since 1994, one since 1995 and two since 1999.

### **Risk Assessment**

233. In line with the recommendations of the External Auditor in his long form report for the biennium 2000-2001, AUD had carried out risk based assessments to determine the areas to be audited and implemented from the 2004-2005 audit plan. The risk assessment model generates a view of the distribution of financial and operational risks across the Organization. Input is sought from the functional heads and the risk assessment is discussed with the Audit Committee for their advice.

234. A review of the documentation relating to the risk assessment and audit planning for the biennium 2006-2007 indicated that the audit universe as on 31 December 2005, which formed the basis for audit planning for the 2006-2007 biennium, listed out the macro-level processes within various entities and the overall risk ranking assigned to those processes. It did not, however, detail the areas, functions, activities or systems at the micro level which were finally selected for audit and the risks associated with those processes.

235. The audit targets indicated in the Programme of Work for the biennium 2006-2007 were sub-elements of the auditable entities/processes listed in the audit universe; however, the link between the risk assessment exercise and the actual audit planning was neither apparent nor well documented.

236. The risk assessment process was revised three times in three biennia. The frequent revisions to the audit universe and the associated risks underline the need for a structured and scientific approach to risk assessment which can only be accomplished by having an Enterprise Risk Management (ERM) system in place. In its response in – principle to the Report of the Independent External Evaluation the Organization had agreed to prepare an organization-wide risk management framework.

## **Budgeting Time**

237. AUD started budgeting time in detail in 2004-2005. The time budgeted for audit activities declined from 64% in 2004-2005 biennium to 53% in the 2006-2007 biennium. On the other hand, the budgeted time for advisory services, special requests and investigations increased from 19% in 2004-2005 to 28% in 2006-2007, reflecting the increased number of unplanned activities that AUD was taking up.

238. AUD's work plan assumes full staffing of the posts allocated. The workload units are determined in respect of the assignments projected in the Programme of Work. However, the time required to take up unplanned activities and the savings in terms of workload units due to audits not done were not reported in the evolution of work plan. The time to be allocated for work in progress assignments was not considered in the targeted workloads for the succeeding biennium on the ground that budgeting for work in progress over year-ends was marginal and compensatory at each year-end.

239. I note that the Organization proposes, from 2008-2009 biennium, to separate investigations from audit in the time budget and fully budget the auditors' time. I also note and encourage the Organization's move to analyse the risks associated with not carrying out planned assignments and to bring such deferments/ cancellations to the notice of the Audit Committee from the biennium 2008-2009 onwards.

**240. (a) I encourage the Organization to move forward in conducting a gap analysis of the variance between business requirements and current resources of AUD.**

**(b) I further recommend that the Organization should prepare and implement the Enterprise Risk Management (ERM) on priority with the assistance of AUD. Pending the preparation of the ERM, AUD should undertake a detailed risk assessment exercise, identifying the units/processes at the auditable entity level after duly considering risks or control concerns indicated by Management.**

241. The Organization agreed with the need for the introduction of Enterprise Risk Management (ERM), and clarified that pertinent preparatory work was under way. The Organization confirmed that in the interim an alternative approach to planning for 2008-2009 has been completed, that high risk areas would be subject to regular audits and that any proposed departures from that policy would be brought to the attention of the Audit Committee.

## **Segregation of Investigative and Auditorial Work within AUD**

242. The Mission Statement of the Office of the Inspector General (OIG) is set out in the Charter for the Office. The OIG has responsibility for internal audit and inspection as well as monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. The Office also has responsibility for investigating misconduct and other irregular activities. To discharge these functions, the OIG is divided into three groups.

243. The Charter of OIG does not make a distinction between the responsibilities required to be discharged by internal auditors and investigators although the nature of activities to be handled by them calls for different sets of skills. The Investigations Unit handles assignments of both auditorial /advisory and investigation work, while the Decentralised Activities Group (DAG) is also tasked to conduct investigations in the field.

244. The costs of audit and investigation were not budgeted distinctly nor was the time to be allocated for investigative work planned separately. Out of nearly 180 reports issued between 2004 and 2006, more than 40 reports pertained to investigative activities. The DAG conducted 43 per cent of the investigations. I note that the Organization has initiated steps to segregate the auditing and investigation functions.

245. Consultants who are hired to undertake investigative work are required to sign a general oath of office, as done by all staff members. Investigations involve work of a very confidential and sensitive nature. To that end special/additional terms and conditions, over and above the general oath

of office, needed to be formulated and given effect to in the case of consultants hired for investigative work.

**246. *I recommend that the process of functional separation of responsibilities within the Office of the Inspector General should be expedited. I further recommend the formulation of specific contractual terms for consultants if engaged for investigative work.***

247. The Organization, while agreeing with the recommendation, indicated that the separation of investigations from audit for planning and resource allocation purposes had been reflected in the 2008-2009 plan.

### **Transfer of Tender Panel Operations**

248. The OIG had the responsibility for tender panel operations involving receiving, opening, recording and retaining under secure conditions all replies in response to invitations for sealed bids. During the period 2004 to 2007 the OIG held 404 meetings and handled 1285 tenders.

249. Considering the nature of internal audit function which requires it to act in an independent and objective manner, the involvement of internal audit in an area which is essentially Management's responsibility, is not supported by established principles/practices. I am happy to note that the tender panel operations were transferred from the Office of the Inspector General (AUD) in January 2008.

### **Timeliness in Issuance of Audit Reports**

250. The Operating Policy and Procedures stipulated in the Internal Audit Manual require the preparation of an audit report on conclusion of audit. Although "a strict time frame" is foreseen for the finalisation and issuance of the report, a specific timeframe has not been determined.

251. The details of the time taken to issue audit reports during the period 2004 to 2007 were called for. The data relating to the years 2005 and 2006 available on a spreadsheet was furnished, as the information relating to 2004 and 2007 was not readily available. The time taken to issue the forty reports relating to 2005 ranged between 13 days and 17 months.

252. For the year 2006, the time taken for the 51 reports to be issued ranged between 15 days and nearly seven months. More than 60 per cent of the reports in 2005 and nearly 50 per cent of the reports in 2006 were issued more than three months after the completion of audit. The Organization indicated that although time limits for management review of draft reports were set, they were seldom followed.

253. Establishment of a timeline would lead to maximisation of the impact of the audit recommendations by ensuring early initiation of corrective action. Besides, delay in issue of reports could lead to loss of contemporaneity of the issue. The creation and maintenance of a database for monitoring the receipt and issue of audit reports could serve as a useful management information system and effective monitoring tool.

**254. *I recommend that AUD establish a timeframe for the issuance of audit reports and also consider putting an effective monitoring mechanism in place to track the receipt, issue and the details of action taken relating to the audit reports.***

255. The Organization agreed with the recommendation.

### **Local Audit Programme**

256. Subsequent to the conclusion of the VFM audit, the Organization indicated that it is taking steps to reform the Local Audit Programme (LAP) aimed at achieving the required level of assurance over the integrity of field office accounts in a more efficient and effective manner and at a more controllable cost to the Organization. The proposed arrangements foresee transfer of responsibility in the course of 2008-2009 for managing the LAP to the Office of the Inspector General (OIG), with the work being carried out by a dedicated team of internal auditors/inspectors, rather than by locally



contracted audit firms. The Finance Division will continue to be the main recipient of the reports and will continue to be responsible for follow up actions. I have taken into account this later development in finalising this part of my report.

257. The Finance Division (AFF) is tasked with ensuring that the internal controls over financial and accounting transactions entered into at field locations operate satisfactorily and therefore constitute appropriate assurance regarding the integrity of such financial information. The Local Audit Programme (LAP) is a key control mechanism over the financial and accounting activities undertaken at field offices.

### **Risk Assessment and Periodicity of Local Audit**

258. In my long form report on the accounts of the biennium 2004-2005, I had highlighted my concern over the cuts in budget for LAP and the Organization had committed to restore adequate funding to the LAP during the 2006-2007 biennium. During the 2006-2007 biennium, uncertainty over the availability of adequate funding led to a 'stop-start' approach to the LAP thereby reducing its usefulness to the Organization. Many quarterly audit contracts were finalised towards the end of the year. The issue of new contracts was suspended from July to August 2006 and again from June to October 2007. Although staffers had been deputed to conduct local audits on a few occasions on a case-to-case basis, this methodology, either as an alternative or as an additionality to hiring of firms as a cost saving measure was not considered for adoption.

259. In my long form report for the biennium 2004-2005, I had highlighted my concern over the cuts in budget for LAP and the Organization had committed to restore adequate funding to the LAP during the 2006-2007 biennium. The initial LAP contracts required the local auditors to conduct monthly examination of all expenditures and report the findings to Headquarters. From July 2004, that local audit periodicity was changed to either quarterly or annual based on the level of FAOR disbursements. Given the time that would be required to review and to issue the audit reports and to initiate the follow up action, the quarterly audits would not necessarily lead to efficiencies. In fact, such frequent reporting would tend to take away the credibility and the purpose of the local audit.

**260. *I recommend that the local audits should be planned based on an evaluation of risk and that, unless warranted by exceptional circumstances, audits should not be carried out more often than once per annum.***

261. The Organization agreed with the recommendation.

### **Timeliness and Evaluation of Local Audit Reports**

262. The audit report is required to be received within 45 days on completion of audit. An analysis of a sample of 286 reports received between 2005 and 2007 indicated that only three reports were received in time. A further analysis indicated that 45 reports were received after delays ranging between 100 to 300 days. Penalty for late submission was not imposed in any of these cases.

263. Although a review of the audit report is stipulated, no time frame had been prescribed for review of, or for reply to, the local audit reports. An analysis of a sample of 251 reports between 2005 and 2007 indicated that 185 reports took up to 100 days to be reviewed and 39 reports took between 100 to 200 days. Five reports were reviewed after more than 200 days.

264. Delayed reports defeat the purpose of the local audits and any irregularities noticed in the audit remain unaddressed. As they are not brought to the notice of the senior management in time formal initiation of corrective action would also be delayed.

265. The Organization stated that the key factors leading to the delay experienced in reviewing and following up the audit reports resulted from the resources situation and the stop-start nature of the LAP programme in recent years caused by shortage of resources. The Organization expected significant improvements with introduction of the new arrangements.

266. The audit report is also required to be evaluated. An examination of a sample of 55 Local Audit reports pertaining to 14 FAORs for the period 2004 to 2007 indicated that the evaluation process and the conclusions drawn, where available, were highly subjective and lacked an uniform basis. Further, the Organization had not framed any benchmark to guide the evaluation process.

267. The Organization stated that it has recently introduced “Review checklists” to support the objective nature of the evaluation process by marking the evaluation in a standard and objective manner. However, the Organization was yet to address the issue of laying down benchmarks.

***268. I observe that establishment of benchmarks and timelines would lead to prompt issue and objective review of audit reports thereby enabling initiation of corrective action in a time-bound manner and recommend that effective steps be taken to derive the intended benefits to the Organization from the programme.***

269. One of the enablers of the reform proposals would be the decentralisation process conferring increased responsibility and authority on the field offices. This process would bring about a change in the architecture and the work flow of the Organization. The decentralisation initiative, to be effective, would need to equip the field offices with adequate capacity to shoulder the enhanced delegation of power and responsibility.

270. The Organization is moving towards adoption of International Public Sector Accounting Standards (IPSAS). It would be essential to ensure that the field offices, with enhanced financial powers and delegated authority, continue to transmit correct financial data to Headquarters in the ‘IPSAS environment’. The need for a viable assurance and comfort mechanism in the process of compiling the Organization’s Financial Accounts would assume sharper focus in the short to medium term.

***271. I take note of the steps being taken to reform the Local Audit Programme and the planned transfer of LAP responsibilities to AUD in the course of 2008-2009 and the steps being taken to ensure the continued implementation of the LAP in the transition period. I observe that the Local Audit Programme is an essential link in the assurance and comfort mechanism relating to the Organization’s Financial Accounts, more so in the context of the reform process and adoption of IPSAS, and recommend that the LAP is enabled to play that role.***

#### **Procurement of Services of Consultants and Personal Services Agreement Subscribers (PSAs) by Emergency Operations and Rehabilitation Division (TCE)**

272. A Value for Money (VFM) audit of procurement of services of Consultants and Personal Services Agreement Subscribers (PSAs) by Emergency Operations and Rehabilitation Division (TCE) of Technical Cooperation Department of the Organization was conducted in April, May and again in November 2007.

#### **Introduction**

273. The Emergency Operations and Rehabilitation Division (TCE) of Technical Cooperation Department of the Organization responds to the emergency needs of countries affected by disasters and paves the way from crisis to recovery by implementing various emergency and rehabilitation projects in collaboration with other partners including national governments and UN Organizations. TCE’s efforts in the affected countries are thus directed towards restoring local food production and reducing dependence on food aid. Apart from distributing material assets, the response of TCE to emergencies include building knowledge and skills of vulnerable people so that they become more self-reliant and are better able to cope with future calamities and complex emergencies.

274. In the biennium 2004-2005, over USD 400 million was provided for the emergency and rehabilitation projects covering 70 countries in different regions. In 2006-2007, the appropriations moved up to USD 590 million, mostly concentrated in 40 crises affected countries and regions. The volume of TCE’s delivery had grown ten fold from USD 45 million in 1994-1995 to around USD 450

million in 2006-2007. This tremendous growth in delivery is indicative of enhanced extra budgetary support/assistance provided by donors and also of expanding role of TCE.

275. Except for the FAO Representatives, all human resources used by TCE in the field are either on short or fixed term contracts, or on Consultancy or Personal Services Agreement subscribers (PSAs) contracts, or other similar forms of contract. TCE hired the services of 654 Consultants and 450 PSAs during 2006-2007 (up to October 2007). In addition, 384 National Project Personnel were also engaged on various emergency and rehabilitation projects. An amount of nearly USD 22 million (USD 14 million on payments to Consultants and USD 8 million to individuals hired for services under Personal Service Agreements) had been paid to Consultants and PSAs in the biennium 2006-2007 (up to October 2007) against the contracted amount of USD 31.6 million.

### **Audit Scope and Approach**

276. The Value for Money (VFM) audit of procurement of services of Consultants and Personal Services Agreement Subscribers (PSAs) by Emergency Operations and Rehabilitation Division (TCE) of Technical Cooperation Department of the Organization covered essentially the period 2006-2007 (up to October 2007). Subsequent developments indicated by the Organisation have been taken into account where appropriate. In analysing trends the preceding biennium was also covered, as deemed necessary. Apart from the general review of systems, procedures and practices adopted for selection and contracting of Consultants/PSAs, 91 contracts out of a sample of 106 contracts/agreements selected were examined to verify that the identification, selection and contracting of Consultants and PSAs were conducted in an economic, efficient and effective manner and in conformity with the relevant regulations. Selected personal files and details of Assignment History were also examined. On matters relating to extensions /reemployment and engaging administrative support staff and Consultants through PSA agreements, the database of 623 contracts concluded in 2006-2007 was analysed. Norms, instructions, guidelines, rules and regulations issued by the Organization were used as benchmarks for performance evaluation. Best practices adopted by international organizations including United Nations also formed the basis for comparison. Detailed discussions, including the Entry and Exit Conferences, with the Director and other staff members of TCE Division were held. In the Entry Conference the scope and audit methodology was indicated. Broad conclusions as a result of audit were brought to notice in the Exit Conference. The VFM Audit covered only Consultants and PSAs and did not include other short-term personnel.

### **Roster**

277 Manual Section 317.9.21 stipulates that offices outside Headquarters should consult the Corporate Roster to obtain a list of potential candidates. Maintenance of a roster promotes, transparency, fairness and objectivity in the selection process. Further, it enables prompt selection of qualified Consultants for deployment at short notice without compromising on quality, economy and transparency of the selection process.

278. TCE attempts to partially compensate the absence of a formal roster by internal networking and the use of the e-Registry. Such a practice may result in delays or encourage selection based on personal knowledge of the requisitioner, a practice that can be questioned on the grounds of lack of objectivity, fairness, competitiveness and transparency. Though the TCE works in an environment that is more demand driven and competitive, that environment by itself does not necessarily bestow transparency and competitiveness on the process of selection. The establishment of, and transparent adherence to, efficient and adequate procedures would provide greater confidence to the stake holders in the selection process.

279. The Organization agreed with the principle that establishment of a Corporate Roster may be a useful instrument for increased efficiency, transparency and objectivity in the selection of Consultants, as well as increasing the base of potential candidates. The Organization added that the lack of qualified and available Consultants was also being addressed by entering into cooperative agreements with technical institutions and member governments for secondment of staff. The Organization

expected that with full implementation and rollout of HRMS, it would be in a position to establish an adequate Corporate Roster.

**280. *The responsibility for creation and maintenance of Corporate Roster would fall on the Organization as a whole and not form a direct and sole responsibility of the TCE. However, I recommend that TCE should strengthen its efforts to immediately develop and maintain a comprehensive roster subject-wise and region-wise to make the process of selection of Consultants more efficient, broad based, objective and transparent. At a later stage, the Organization's Corporate Roster, when set up, can draw from and subsume the TEC's comprehensive roster.***

## **Selection Process**

281. Procurement is the process of obtaining goods and services in conformity with applicable laws and regulations. Value for Money (VFM) is the core principle underlying procurement of goods and services. It is essentially about a trade-off between the quality of services and cost. The VFM comes from the efficient, effective and economic use of resources. It is enhanced in procurement by encouraging competition, ensuring non-discrimination, promoting efficient use of resources and making decisions in an accountable and transparent manner.

282. Consultants are recognised authorities or specialists in a specific field, whose services are to be utilised in an advisory, consultative, or demonstrative capacity in project formulation or implementation. On the other hand, PSAs are individuals required to perform, without direct supervision, specific tasks or services of an intermittent or discontinuous nature and limited duration, different from those performed by staff members on a continuing basis. The tasks to be performed by PSAs are specified in the Personal Services Agreement. Neither the Consultants nor the PSAs are staff members of the Organization.

283. The conditions of employment of Consultants and PSAs are determined by separate Manual Sections. The Manual Sections are brief and does not lay down detailed procedure and criteria for evaluation of applicants and selection of Consultants except for prescribing maintenance of a corporate roster to be consulted to obtain a list of potential candidates.

284. To examine whether the system, procedure and practices of procurement of services of Consultants and PSAs adopted by TCE were transparent, competitive, conforming to Manual Sections and provided value for money, the system, procedure and practices followed by TCE for hiring services of Consultants/PSAs were reviewed. The files relating to 91 contracts involving 23 Consultants/PSAs made available from a sample of 106 contracts pertaining to 39 Consultants/PSAs for this purpose were examined.

285. The documentation in all the 23 cases involving 91 contracts reviewed indicated that TCE considered only one candidate for selection in each contract. Further, repeat consultancy contracts were awarded under the same or different projects in operation in the area depending on availability of funds under each project. Single source selection is not a good practice and limits competition. A more competitive and broad based process, especially in view of the fact that most of the projects undertaken by TCE run for more than a year, should be put in place.

286. The Organization stated that a multi-sourcing, competitive approach was employed in the selection process and that, typically shortlists varied from one to three names, and the number of candidates reviewed varied from one to more than ten. The Organization added that various means were used to look for qualified potential candidates with the right relevant experience and capacity to deliver.

287. However, no audit evidence of a wider selection based on roster or vacancy advertisement came to light in any of the 91 contracts examined.

**288. *As the practice of single source selection would limit competition, affect transparency, and minimise opportunities for obtaining best value for money, I recommend that the selection process of Consultants/PSAs may be made more formal, broad based and competitive.***

### **Repeated engagement of Consultants/PSAs:**

289. The database of 623 contracts of Consultants/PSAs engaged during the biennium 2006-2007 was analysed. It included 414 contracts of 199 International Consultants/PSAs of various categories. The analysis indicated that International Consultants were engaged several times during the biennium; sometimes under different types of contract and for different expertise. 153 contracts were awarded to 27 individuals in 2006-2007.

290. Repeated employment of the same individuals several times may indicate that the process of contracting services of international Consultants in TCE is not competitive and broad based. This may not only discourage new experts from offering to work in emergency projects but may also increase the cost of consultancy due to lack of competitiveness of the process. This practice also allows almost permanent or semi-permanent engagement of several individuals for long durations.

291. The Organization recognised that in principle repeated re-employment of Consultants and PSAs should be avoided but also noted the existence of certain exogenous constraints, such as:

- (i) when the Consultants were appreciated and performed well, the host/beneficiary Government preferred these Consultants to be recruited in order to ensure continuity in the technical assistance rather than having to start all over again with new Consultants for each mission;
- (ii) there was scarcity of well qualified Consultants and there was need for their continuity;
- (iii) several vacancy announcements had been posted for positions worldwide and were regularly reviewed with regard to updating, and,
- (iv) there was difficulty in finding Consultants familiar with Organization's emergency mandate, work and procedure.

292. Engaging the best expert at the most reasonable cost would be the overriding concern of any donor/beneficiary country and this can be achieved only when there is a choice springing from competitiveness and objective method of selection. Besides, the constraint of shortage of Consultants cited can be alleviated only on effective efforts being made to broaden the Consultant and PSA subscriber selection base.

293. *I observe that there are repeated engagements of the same individuals for long periods through extensions or re-employment on various projects and recommend that the Organization should make further efforts to streamline the process of selection of Consultants/PSAs, identify more experts through a systematic process and expand its database so as to reduce dependence on a limited number of experts.*

294. The Organization, in agreeing with the spirit of the recommendation, stated that it should be noted that given the particular nature of the circumstances and constraints under which the emergency and rehabilitation work takes place, there often exists a close correlation between solid performance of a Consultant and extended funding for a given emergency, particularly in the case where the emergency continues over a period of time.

295. I note the Organization's agreement with the spirit of the recommendation and encourage taking further action to streamline the selection process and to expand the database.

### **The Use of Personal Service Agreements**

296. The Manual Section stipulates that where an individual is required to perform duties without direct supervision and whose presence is not normally required on FAO premises a Personal Service Agreement can be entered in to provided the duties to be performed are not of an advisory, consultative or demonstrative nature.

297. A database containing, inter alia, 394 contracts relating to Personal Services Agreements of various categories relating to the biennium 2006- 2007 was analysed. The analysis, which excluded the exempt cases from Afghanistan, indicated that 84 PSA contracts (22.08 per cent of the sample) were entered into for expertise/work that were typically to be carried out "on a staff basis". These assignments included those of Administrative Assistants, Clerks, Drivers, Secretaries and Liaison

Officers. The Review further indicated that 25 Personal Services Agreements were also used to hire services of Consultants.

298. With the reintroduction of MS 375 for National Project Personnel (NPP) in May 2006, the Representations were requested to use NPP form of contract for all administrative and other types of contracts for project personnel. However, there were instances of PSAs being used for contracts for hiring drivers and clerks even in late 2007.

***299. Since Personal Service Agreements for hiring services of Administrative Support Staff had been used in the past and were still being used by some FAO Representations, I recommend that TCE should effectively monitor and ensure that such personnel are not hired on Personal Services Agreements. I further recommend that employment of Consultants under Personal Service Agreements may not be resorted to as a specific Manual Section already exists for contracting services of Consultants.***

300. The Organization agreed with the recommendation and added that the use of PSAs and Consultancy contracts had been brought back within the limits of their original purpose, and the use of PSAs had decreased significantly.

### **Administrative Resources Management System**

301. The Administrative Resources Management System (ARMS) is also to be used to maintain information of the Consultants and PSAs employed, including their Assignment History. The ARMS can capture and maintain information on 27 fields and provide additional information on 10 more fields. Such a storehouse of data and information would be a very useful, effective and transparent tool in assessing past experience, performance and remuneration levels of Consultants/PSAs and their suitability for the future assignments.

302. The employee assignment history of a sample of 25 Consultants/PSAs maintained on ARMS was reviewed. The information in Employee Assignment History on the ARMS was neither complete nor updated. Some information that was available related only to the latest / current assignment. Most of the fields including details of the previous assignments, location, remuneration levels, overall evaluation and suitability evaluation were not filled in. The system had been designed to allow access to only one person's data at a time; hence obtaining statistics and monitoring on a desk, service or division basis was not possible. The ARMS was seen as extremely slow and not at all user-friendly.

***303. Although the Administrative Resources Management System is designed to facilitate online maintenance of Employee Assignment History and record of past performance, it is not serving the intended purpose as the information available in the system is incomplete. I, therefore, recommend that information relating to Consultants/PSAs in the System may be updated regularly and the accessibility related problems addressed so that it proves to be a useful tool to the procuring officers.***

304. The Organization supported the recommendation subject to the system being user friendly and cost effective.

### **Performance Monitoring**

305. The term monitoring generally indicates the awareness of the state of the system/work and the taking of suitable action in time for achievement of the objectives. Identification of appropriate performance indicators and collection of accurate information followed by critical analysis of such information are essential for managerial feed-back and ensuring accountability in the delivery of services. Contract monitoring is a key element in contract administration and helps in (a) assessing the quality of work done; (b) identifying opportunities for improving the contractor's performance; (c) ensuring that the

contractor has fully met the obligations under the contract; and (d) establishing the point at which payments can be made.

306. The framework of monitoring and the methodology vary and also depend on the nature of the contract. However, some of the standard practices include (i) monitoring the contractor's performance against the specific targets and levels laid out in the contract, (ii) recording user satisfaction, and (iii) taking corrective action where necessary.

307. The project papers provide for the Consultant to prepare a detailed work plan, a report at the end of the assignment, a draft terminal report and also a report on the project impact on the beneficiaries at the end of the assignment. Extant instructions require an Evaluation Form to be completed in respect of all Consultants and Subscribers to PSAs within 14 days of completion of each assignment and submitted to the departmental Personnel Officers. The quality assessment of Consultants/PSAs is to be done through the Evaluation Report prepared in the Management Support Units by the country Project officer/Project Operation officer in consultation with technical division in field and by the Technical officer at Headquarters.

308. The quality assessment criteria/ areas include professional competence, fulfilment of terms of reference, technical judgment, project approach and report writing under technical parameters and personal attributes, apart from overall rating. Though the policy dictates that a copy of the Quality Assessment report needs to be kept in the personal file of each Consultant, this was not followed uniformly. The Organization assured of taking appropriate measures to ensure that the policy was followed.

309. An examination of the personal files of 20 Consultants/PSAs indicated that Quality Assessment Reports were not available on personal files of seven of the 20 Consultants/PSAs reviewed in audit. Further, though Quality Assessment Reports were found on the files of the remaining 13 Consultants, the reports were either incomplete or were deficient in many respects.

**310. *The Organization should strengthen its efforts to ensure meaningful, comprehensive and transparent evaluation of the performance of Consultants and PSAs to make these assessment reports more reliable as an effective tool to monitor the quality of work output.***

311. The Organization agreed for the need of a systematic and better adapted, formal and written evaluation system for Consultants and PSA subscribers and added that the Organization was currently looking into the implementation of a new performance management system.

### **Processing Timeframe**

312. The processing and approval of cases relating to contracting of Consultants and PSAs are not dictated by any stipulated timeframe. In the absence of such a benchmark, it would be difficult to assess the efficiency of the existing system of processing and granting of approvals for hiring of Consultants/PSAs. Prescribing such timeframe may enable the management to effectively monitor and ensure that Consultants/PSAs are identified and engaged promptly and the cases where waivers are required do not get delayed. The Organization indicated that they were doing their best within the resources available.

**313. *I recommend that specific time frame may be prescribed for various stages of processing and granting approvals, including waivers, in cases of engagement of Consultants and PSAs.***

314. The Organization agreed with the recommendation and noted that improvement of the situation was embedded in the SSC action plan.

### **Enhancing Transparency**

315. Transparency is one of the principal hallmarks of a proficient procurement system. It implies that the procurement agency establishes and follows rules and procedures that are accessible and

unambiguous. 'Documentation and Disclosure' are fundamental elements of transparency and promotes accountability in the procurement process.

316. The rules and guidelines relating to identification, selection and contracting of services of Consultants and Subscribers to the PSAs are confined to the Organization's intranet. These should be in the public domain so that the stake holders, experts and individuals can have access to the information on the procedures and practices. The Organization stated that targeting information to potential candidates was a good suggestion.

317. Documentation in the contract/personal files test-checked relating to (a) reasons for a particular person being selected/recommended in preference to others, (b) number of candidates considered in all, (c) justification for resorting to single source selection, and (d) reference, if any, to the Roster in identifying the candidate needed much improvement. The Organization assured of maintaining adequate documentation of the process of selection.

318. Information relating to the candidates who submitted proposals, Consultants who were finally selected, remuneration payable, duration of the project, scope of the contract, etc. were not posted on the Organization's Website, thereby denying the stake holders and the public access to the information. The Organization stated that the publication of personal information given in confidence by applicants would be a breach of their right to privacy. It is to be noted that placing such information in public domain would increase transparency and also the confidence in the selection and contracting process.

**319. *The rules and procedures governing selection and contracting of services of Consultants and PSAs are not in public domain. There is a lack of proper documentation in the selection process. I observe that, going forward, there is scope for improving transparency in the procedures and practices adopted by the Organization and recommend that:***

*a) the process of selection of Consultants should be adequately documented to provide a record of procurement activities and how these have been conducted, and also to facilitate independent scrutiny of these activities at a later date;*

*b) to promote further transparency in its functioning, the Organization should consider placing its guidelines/rules relating to identification, selection and contracting of Consultants and PSAs in public domain for easy accessibility by all stake holders, experts, technical personnel and others; and*

*c) the Organization should consider tailoring, in future, the terms and conditions of the service agreements with Consultants to be in line with the best practice of publishing names of successful candidates and other brief details in its Website to enhance transparency in the procurement process.*

### **Waivers in the Engagement of Consultants and PSAs**

320. The Manual Sections 317 and 319 stipulate the conditions of service and procedures governing the engagement of Consultants and PSAs. The authority to make exceptions under these Manual Sections is delegated to the Director, AFH. The request for exception must originate from, or be submitted through, the Head of Department or Head of Office concerned. Besides, instructions have also been issued prescribing ceilings for remunerations and limits on appointments, durations and breaks between two appointments.

321. To appreciate the extent of waivers granted and the reasons therefor, the details of contracts and the waivers for the biennium 2006-2007 were sought and examined in audit. Out of the 689 contracts finalised during the period, waivers had to be sought in 142 cases (20.61 per cent) comprising 33 waivers relating to change in the nature of contract, 22 waivers from the mandatory break period, 72 waivers for granting remuneration above standard rates, seven waivers for employment of relatives of FAO staff, two waivers in respect of pensioners and six waivers of other kinds. The details of waivers granted were available only in the individual personal files. There was no consolidated report on waivers granted.



322. The Organization stated that the fact that 20 per cent of the non-staff human resources for the emergency programme were recruited on the basis of waivers from the standard rules guiding the use of non-staff resources was a clear indication that those rules were not well adapted to the Organization's rapidly increasing emergency programme.

**323. *In the light of the significant number of waivers being granted, I recommend that, looking forward, the Organization should consider disclosing such waivers, to begin with, in the Organization's Intranet in the interest of greater transparency.***

#### **Appropriate Framework of Rules**

324. The projects implemented by TCE fall into two broad categories- (i) Emergency Operations needing immediate response and (ii) Rehabilitation projects which have comparatively longer operational periods. The existing rules/practices for selection and contracting of Consultants/PSAs do not differentiate between the two types of requirements. In the absence of separate comprehensive guidelines or rules dealing with emergency situations, frequent piecemeal instructions are issued to deal with various situations.

**325. *The emergency and rehabilitation operations and the volume of delivery of these operations have grown tremendously. There has been a significant number of waivers granted in the engagement of Consultants and PSAs and issue of frequent 'case to case' instructions which are, perforce, ad hoc in nature. I, therefore, recommend that the issue of framing of a comprehensive framework of rules to guide the selection and contracting of Consultants and PSAs for emergency projects, as distinct from rehabilitation or other projects, be visited.***

326. The Organization agreed with the recommendation and expected that a new framework of rules and guidelines for selection and contracting of Consultants and PSA subscribers would be developed, with a view to streamlining the recruitment process and enhancing transparency whilst meeting the expectations and requirements of recruiting Divisions.

## **PART IV**

### **OTHER MATTERS**

#### **Write-Offs**

327. Under Financial Regulation 10.4, the Director-General may, after full investigation, authorize the writing-off of losses of cash, supplies, equipment and other assets, other than arrears of contributions. A statement of all such losses written off during the financial period is to be submitted to the External Auditor with the final accounts. Three such cases were reported. The total amount written off in the three cases was USD 48461.40.

328. On an examination of the three cases furnished to audit, I am satisfied that the amounts were written off after following proper procedure.

329. The Organization informed that no ex-gratia payments were made during the biennium.

#### **Cases of Fraud or Presumptive Fraud**

330. In pursuance of item 6 (c) (i) of the Additional Terms of Reference governing External Audit, the Organization provided a list of 23 cases of fraud or presumptive fraud, known to the Organization for the biennium 2006-2007 and information regarding follow up of previously reported cases.

331. Five of the cases related to submission of false medical claims involving four former staff members and seven active staff members. All four former staff member have been removed from the ASMC plan, six active staff members have been dismissed and one active staff member has been suspended without pay.

332. Twelve cases related to travel entitlements involving twelve staff members. Five have been dismissed, one has been separated, one has resigned, one reached mandatory retirement prior to completion of disciplinary proceedings, and one has been given written censure. The disciplinary proceedings are on-going in the remaining three cases.

333. In the six other cases of fraud, four related to falsifying documents, one to collusion between suppliers and consultant and one to fraudulent claims for work not done. One staff member has been dismissed, one has retired, and one was placed under suspension without pay and in one case, resignation was accepted on the ground of health. In the other two cases the consultants were declared ineligible for future employment with FAO.

334. The total amount involved in these cases was USD 122,630.41, of which USD 98,214.89 had been recovered. The Organization stated that recovery of an amount of USD 759.27 was in progress and the recovery of USD 5000.00 was uncertain. The balance of USD 18656.25 could not be recovered.

335. I am of the opinion that appropriate action and sanctions were taken, where applicable, in these cases.

336. All the cases had come to light either as a result of investigation by AUD or by alerts from the medical insurance company. Given the deficiencies of the travel software "ATLAS", as pointed out in my long form report on the 2004-2005 biennium accounts, the Organization had introduced a manual procedure requiring the line managers to verify the overlap of duty and home travel. I observe that this manual procedure is not being applied in all the cases, as evidenced from the fact that more than 50 per cent of the fraud cases related to travel entitlements. I encourage the Organization to ensure such verification in all travel cases.

337. Disciplinary proceedings are confidential and the details of staff member involved can not be disclosed. There have been instances where disciplinary proceedings were on-going or were being contemplated and the delinquent staff member succeeded in putting in his papers for and obtaining separation.

**338. *I recommend that the Organization consider introducing a mandatory process by the line managers to verify whether a disciplinary proceeding is pending against a staff member before accepting the staff member's request for separation.***

#### **Acknowledgement**

339. I wish to record my appreciation of the cooperation and assistance extended by the Director-General, his officers and staff during the audit.



**Vinod Rai**  
**Comptroller and Auditor General of India**  
**External Auditor**

**10<sup>th</sup> September 2008**