
REPORT ON THE AUDIT OF THE IOTC SECRETARIAT BY FAOPREPARED BY: IOTC SECRETARIAT

PURPOSE

To submit for the consideration of the Standing Committee on Administration and Finance (SCAF), a pre-release report on the 2019 audit of the Commission undertaken by the FAO Office of the Inspector General (OIG). This audit meets the 2nd Performance Review Panel's Recommendation 23b (*Availability of resources for IOTC activities & Efficiency and cost-effectiveness, consistent with best practice governance procedures*).

BACKGROUND

1. The FAO Office of the Inspector General (OIG) carried out an audit of the Commission between February and March 2019.
2. The main objective of the review was to assess whether the IOTC Secretariat is managing its administrative and financial operations in an economic, efficient and effective way. This included assessing:
 - (i) the general control environment at the IOTC Secretariat;
 - (ii) governance and the impact of the IOTC status as an Article XIV body and its relation with FAO, in the economy, efficiency and effectiveness of its operations;
 - (iii) the extent to which financial and administrative operations are conducted with due care and in compliance with FAO rules.
3. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and involved a review of documentation, benchmarking with best practices and discussing with management and staff. Specific processes were tested using review of procedures, walk-through testing of specific activities, interviews with staff and physical observation. Samples of transactions chosen for detailed testing were selected on a judgmental basis.
4. The final audit report of the OIG is an internal confidential document, and currently not available. The audit report will have three sections. The first section deals with the general control environment at the Secretariat; the second one discusses governance aspects, in particular as regards the alleged impact on the IOTC's performance of being within FAO and not fully autonomous; and the third section assesses in detail the Secretariat's financial and administrative management performance.
5. In accordance with FAO's report disclosure rules, the final audit report can be made available to Permanent Representatives accredited to the Organization upon request in writing made to the Inspector General of FAO.

MAJOR FINDINGS OF THE AUDIT

6. FAO uses a rating system with four categories as defined as below:
7. In the administrative and financial area, the report found that "the Secretariat is now operating in a strong control environment and with general adherence to FAO's policies and procedures. Opportunities for further improvement are identified in the report; in particular, in the areas of procurement, assets management, project management, etc. Overall, OIG has concluded that the IOTC Secretariat's financial and administrative management needs some improvement".

Engagement Rating	Definition	✓ IOTC
Satisfactory	<p>The assessed governance arrangements, risk management practices and controls were adequately established and functioning well/ designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>Issue(s) identified by the audit, if any, do not affect the achievement of the objectives of the audited entity/area</p>	
Some improvement needed	<p>The assessed governance arrangements, risk management practices and controls were adequately established and functioning well / designed and operating effectively but need some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>Issue(s) identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.</p> <p>Management action is recommended to ensure that identified risks are adequately mitigated</p>	
Major improvement needed	<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.</p> <p>Prompt management action is required to ensure that identified risks are adequately mitigated.</p>	
Unsatisfactory	<p>The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well / not adequately designed or not operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.</p> <p>Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>	

OUTCOMES: CONTROL ENVIRONMENT

8. Compared to OIG's previous audit, the control environment at the IOTC's Secretariat has strengthened significantly. Three key improvements in this regard have been:
- the roll-out of FAO's ERP (GRMS) to the Secretariat, allowing for financial and administrative workflows fully consistent and integrated with FAO's policies and procedures in a secure IT environment;
 - greater support and guidance by FAO to the work of the Secretariat, thanks in part to the integration of IOTC in FAO's corporate IT systems, but more importantly to the closer ties and excellent working relationships between IOTC staff and other parts of FAO; and
 - a solid administrative team at the Secretariat with a strong knowledge of FAO rules and regulations, under strong leadership.

OUTCOMES: GOVERNANCE ASPECTS

9. The IOTC has solid governance arrangements in place.
10. OIG believes that consideration could be given to updating Rule XVIII (Amendment of rules of procedure). This rule allows the Commission to amend the ROP without consultation with FAO. Considering the problems that

emerged with the revised procedure for the selection and appointment of the Executive Secretary, OIG believes that it would be prudent if amendments of administrative provisions required FAO's agreement

11. In general, OIG believes that the main constraints to the Secretariat's administrative/financial performance are unrelated to the IOTC's status as an FAO Article XIV body. The main constraints are:
- i) the remote location and small size of the host country, which complicates the acquisition of goods and services and increases costs;
 - ii) situations when the Secretariat is faced with a lack of sufficient advance notice and/or advanced planning to undertake certain administrative processes;
 - iii) the highly specialized nature of IOTC's activities and the apparently small number of players capable of providing the required technical services; and
 - iv) the slow or non-payment of contributions from member countries.

OUTCOMES: FINANCIAL AND ADMINISTRATIVE MANAGEMENT

12. An outstanding problem is the arrears of contributions from a limited number of member states.
13. The Secretariat has a very prudent approach to the management of the IOTC's budget, which takes into account from the start the expected amount of unpaid contributions.
14. The Secretariat is performing effectively procedures for accounts payable, accounts receivable, management of bank accounts and bank reconciliations.
15. Regarding Executive Secretary Recruitment: the question of the ownership of the process has been central to the controversy between the IOTC and FAO. Leaving this aside, OIG believes that FAO's customary selection procedures provide greater assurance that the Executive Secretary will be selected based on an objective assessment of her/his technical and managerial skills.
16. Overall, the IOTC is recruiting and managing its non-staff human resources according to FAO rules, in a competitive and transparent manner. IOTC has requested that Members of the Commission (as chairs or vice-chairs of the different bodies that form the IOTC's governance) participate in the selection processes. OIG finds that the risk of having external members in the selection panels is minimal.
17. OIG found shortcomings in the Secretariat's procurement processes. Among the issues identified, OIG found cases of direct procurement not well documented. OIG also acknowledges that the standards of performance have improved significantly since the current Administrative Officer was appointed. Procurement procedures could further improve if the Secretariat developed a list of local suppliers and increased the number of bids for each procurement action.
18. The biggest contract entered into by FAO on behalf of IOTC is one for the operationalization of the Regional Observers Programme, worth approximately USD 1 million per year. The procurement process was conducted in full compliance with FAO's rules. OIG is nevertheless concerned that, given the highly specialized services involved, as time goes on, the current contractor will develop a quasi-monopolistic foothold for the provision of the services.
19. The selection of experts invited to attend IOTC meetings follows a transparent process.
20. OIG believes that the Secretariat failed to adequately monitor a large research contract that was developed and signed late in 2016 (a time when the ES, Administrative Officer and Science Manager positions were vacant).
21. The Secretariat needs to be more rigorous in the management of assets (laptop computers etc) and avoid certifying assets for which it does not have effective control and/or that are not traceable.
22. The Secretariat is managing the travel activities in accordance with FAO's policies and procedures.
23. The Secretariat is administering the Meeting Participation Fund in accordance with the Rules of Procedure.

PROPOSED ACTIONS

24. The audit identified the following nine ‘improvements needed’ (abbreviated). These will be monitored by FAO as part of an action plan.
1. (High priority) The Secretariat, in consultation with FAO’s Legal Office, to take formal action to request that the Government of Seychelles participate in a review of the annex to the Headquarters Agreement and, as required, revise the provisions to reflect the current needs of IOTC.
 2. The Secretariat to request that OHR re-advertise the P5 Senior Fishery Officer (Compliance) position.
 3. (Moderate Priority) The Secretariat to establish recruitment rosters (of consultant and service providers) for the most commonly demanded profiles.
 4. (Moderate Priority) The Secretariat to assess whether it is feasible to open up components of the Regional Observer Programme to other contractors, with due care for the safeguard of IOTC and FAO’s interests and full respect of FAO procurement rules.
 5. (Moderate Priority) The Secretariat to consider improvements to the management of the Regional Observer Programme contract.
 6. (Moderate priority) The Secretariat to (i) request disposal of all items which are not traceable or not in use, paying attention to the correct erasure of data in IT equipment; and (ii) complete the inventory list with all data and indicate the actual custodian of each asset.
 7. (Moderate Priority) The Secretariat to add controls in the travel approval process to prevent using the Meeting Participation Fund for ineligible countries.
 8. (High priority): The Secretariat to strengthen control over its project co-funding by: i) undertaking a formal assessment of its human resources and co-funding capacity before accepting new funding, ii) accurately monitoring its support to projects and iii) regularly reporting to the Commission.
 9. (Moderate priority): The Secretariat to fully reconcile the Regional Observer Programme’s cash balance against the previous years’ results by participating fleet, and to prepare a proposal, for the fleets’ attention, on the possible options for use of those funds.

SUGGESTED ACTIONS BY THE STANDING COMMITTEE ON ADMINISTRATION AND FINANCE

That the SCAF:

- a) **NOTE** paper IOTC–2019–SCAF16–10 on the draft audit findings of FAO Office of the Inspector General (OIG).