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منظمة  
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# FINANCE COMMITTEE

**Hundred and Ninety-fourth Session**

**Rome, 7-11 November 2022**

**Management Response to the Recommendations presented in the Report of  
the External Auditor for 2021**

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EXECUTIVE SUMMARY

- This document presents the Management Response to the recommendations detailed in the Report of the External Auditor for 2021.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Committee is invited to review the document and provide guidance as deemed appropriate.

**Draft Advice**

**The Committee:**

- **noted the Management response and proposed actions to implement the recommendations presented in the Report of the External Auditor for 2021; and**
- **encouraged the Secretariat in its efforts to close the outstanding recommendations.**

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## **Introduction**

1. The table below presents the Management comments on the recommendations contained in the Report of the External Auditor for 2021.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
<b>FUNDAMENTAL</b>				
Financial Audit				
Revised useful life of assets (ULA)				
1.	Review the useful life of assets (ULA) annually and incorporate the revised estimated value of assets along with the related changes in its Annual Financial Statements (AFS) along with appropriate disclosure in Notes to the Annual Financial Statements to comply with the provisions of International Public Sector Accounting Standards (IPSAS). (Paragraph 53)	2022	CSF	We confirm that this recommendation has been implemented effective 1 January 2022.
Management Matters				
Performance audit of Investment Centre (CFI)				
5.	Develop metrics for mapping the leverage effect of its work and in measuring as well as maintain data in support of the outcome. (Paragraph 79)	2022	CFI	CFI has developed metrics to track “investment leverage” including:  - At design stage for the public investment portfolio and blended finance pipeline/portfolio. The metrics include the number and value of investment projects developed in collaboration with investment partners, and the number of investee countries.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
				<p>- At implementation stage, the total public investment portfolio supported, including the number and value of projects, and number of countries.</p> <p>This information is published in the Investment Centre Annual Review. CFI also reports on the budget leverage ratio (RP budget compared with budget from external resources) as part of its periodic budgetary reporting to OSP.</p>
Performance Audit on Programme Budget, Work Planning and Reporting of Programme Implementation				
Formulation of Country Programming Frameworks				
8.	Implement a mechanism to ensure timely finalization of Country Programming Frameworks (CPFs) for all the countries where CPF is required, in order to provide a current basis for an efficient programming, implementation and reporting at country level under the new Strategic Framework. (Paragraph 110)	2022	OSP/ROs	OSP will utilize the new country programming framework dashboard information in collaboration and liaison with the relevant regions to follow up on cases where CPF formulation is lagging, and ensure timely finalization. This information will be used as a basis for specific Regional Office follow-up to accelerate action where possible, recognizing the primacy of the UN Resident Coordinator and limitations on FAO unilateral action inherent in the joint programming processes.
Linkage of outputs in workplans to projects				
11.	Consider making it mandatory to link every output in a workplan with relevant projects and vice versa (with an option to enter 'to be decided' for outputs without ready reference to any project)	2022	OSP/PSS	In the context of the PROMYS project, FAO will ensure that the project linkage to country output is established systematically, and vice versa. This will ensure that the data repositories for projects, country programming and corporate programming are in alignment.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
	in the current/upcoming application for reporting on the progress in achievement of the intended PPA Outcome and output Indicators in the Strategic Results Framework. (Paragraph 126)			
<b>SIGNIFICANT</b>				
Financial Audit				
Bank Reconciliation Statements and non-reconciliation of year end balances				
2.	Institutes controls to ensure completion of all bank reconciliation within defined timelines. (Paragraph 61)	As part of ongoing work	CSF	<p>Management agrees on the importance of ensuring timely reconciliation of bank statements and confirms that the established policy requires that bank reconciliations are completed within 30 days of the end of the month being reconciled.</p> <p>Monitoring and follow-up actions include:</p> <ul style="list-style-type: none"> <li>- CSF follows up regularly with Decentralized Offices to ensure that reconciliations have been completed prior to replenishing their bank accounts.</li> <li>- CSF provides support to offices either through one-on-one training, or in certain cases, carrying out the bank reconciliation on their behalf.</li> <li>- Country Financial Risk Reports make note of offices that are consistently late so that the head of office is made aware of the situation and can take action.</li> </ul>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
				<p>- CSF has developed an online course on bank reconciliation as a pre-requisite for access to the GRMS cash management (bank reconciliation) module and holds refresher virtual courses each year.</p> <p>- FAO is carrying out reconciliations of all unreconciled subledger entries, noting that some historical issues require considerable research.</p>
Refunds payable and voluntary contributions received in advance				
4.	Consider separate disclosure of voluntary contributions received in advance and refunds payable to the donors, in the Statement of Financial Position in compliance with the Para 89 IPSAS-1 and for better interpretation of financial information by the user of the AFSs. (Paragraph 65)	2022	CSF	This recommendation will be addressed as part of adoption of new revenue recognition standards to be issued by the IPSAS Board.
Management Matters				
Performance audit of Investment Centre (CFI)				
6.	Formulate an implementation strategy to build capacity in investment support based on needs analysis to identify critical gaps in knowledge and capacity. (Paragraph 87)	2022	CFI	Capacity development is an emerging area of work and currently represents a relatively small value of CFI delivery. It is expected to grow in the coming years, as anticipated under CFI's Transformation Plan. To this end, CFI has developed two "Companion Solutions" to its four investment and finance solutions – capacity development for investment (CD4I) and knowledge for investment (K4I) respectively. The two solutions are driven by the demand and needs of Member Nations and financial partners.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
Performance Audit on Programme Budget, Work Planning and Reporting of Programme Implementation				
Alignment of Projects to workplans and PPAs/SDG targets				
10.	Ensure integration of projects within the country work planning to the Programme Priority Areas (PPAs) and the Sustainable Development Goals (SDG) targets with its contribution duly reflected in standardized output indicators. (Paragraph 120)	2022	OSP/PSS	FAO country level project contribution to PPAs and SDGs is captured in FPMIS, at the point of formulation, since the beginning of 2022. In the context of the PROMYS project, a systematic linkage between projects and country outputs will be established. This will ensure country workplans reflect PPAs and SDGs comprehensively, and a holistic view of PPA and SDG contributions is provided in the corporate reporting.
Linkage of Country Programming Frameworks (CPF) Outputs, Programme Priority Areas (PPAs) and SDGs				
12.	<p>For ensuring correctness of measuring and reporting on progress of the Organization towards the SDG goals through the standardized output indicators, FAO should:</p> <p>i) Ensure alignment of CPF outputs and SDG targets with those of United Nations Sustainable Development Cooperation Framework (UNSDCF).</p> <p>ii) Consider enhancing controls to ensure that outputs defined at appropriate levels are linked</p>	2022	OSP/PSS	<p>i.) FAO policy stipulates that CPF outputs should be derived from and aligned with the UNSDCF and its SDG targets, and accordingly there is a quality control step undertaken by the Regional Offices as a control mechanism.</p> <p>ii) FAO will ensure that the planning systems continue to enforce the alignment of PPAs and the relevant SDGs for all headquarters units.</p> <p>iii.) For Decentralized Offices, as part of FAO's efforts to further the grounding of the Strategic Framework at country level, the Organization is preparing information and reference/capacitation materials – as part of the overall CPF guidance – to ensure that Decentralized Offices better understand, <i>inter alia</i>, PPA content, theories of change and SDG linkages. This will serve to ensure a better alignment of PPA and SDG linkages at country level.</p>

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	<p>to PPAs only if the Results Framework supports the PPA linkage through the common SDG targets.</p> <p>iii) Ensure formulation of workplan and Output indicators in Regional and Country Offices is in coherence with the Results Framework.</p> <p>(Paragraph 136)</p>			
<b>COMPLIANCE AUDIT FINDINGS</b>				
<b>Procurement</b>				
14.	<p>Endeavour to improve institutional arrangements for facilitating competitive selection of Letter of Agreement (LoA) related service providers to ensure best value for money.</p> <p>(Paragraph 147)</p>	2022	CSL	<p>The recommendation is partially agreed. LoAs are not used for the procurement of goods and services but to obtain services not available on the commercial market, from not-for-profit/governmental entities. LoAs are not construed as procurement.</p> <p>CSLP will raise awareness and introduce measures to emphasize the importance of pursuing competitive selection over direct selection, also working via the Regional IPO network.</p>
15.	<p>Ensure that controls are in place to ensure that requirements that establish transparency in procurement are adhered to and related records are uploaded by</p>	As part of ongoing work	CSL	<p>The recommendation is partially agreed. The matter of using GRMS as a record keeping system has not been established due to current GRMS architecture/limitations as well as matters of confidentiality/access to tender specific information.</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
	individual offices in Global Resource Management System (GRMS) for record and review. (Paragraph 151)			CSLP, through Regional Offices/IPOs, will raise awareness on the necessity to maintain all documentation establishing the transparency of the process in good order and upload, as a minimum, signed Local Procurement Committee minutes in GRMS.
Consultant contract duration and contract breaks				
16.	Subregional Office for the Pacific Islands (SAP) Management should bring in systems to ensure that contracts are not renewed without mandatory contract breaks. (Paragraph 157)	2022	SAP/ RAP/CSH	This recommendation has been fully implemented in 2022.  SAP complies with organizational rules and guidelines for all cases of NSHR employment. For contract durations, SAP reviews all cases using the corporate calculator and consults with RAP or CSH when required. In the event of exceptions, required endorsements are obtained. It should be noted that the cases highlighted by the External Auditor during 2020-2021 were managed in accordance with the FAO “Human Resources and Non Staff Human Resources Guidelines for Offices during the Novel Coronavirus (COVID-19) pandemic” and relevant clearances were duly obtained for the NSHR contract renewals.
Project Management				
18.	Control measures be implemented to ensure that management actions for timely project closures are undertaken. (Paragraph 168)	As part of ongoing work	PSS	To improve oversight and system monitoring, PSS will work with the FPMIS technical team to introduce system capabilities for operational and financial closures to be flagged separately as part of the proposal for the refinement of FPSN indicators.  FETUR has appointed specialists to strengthen activities regarding project monitoring and evaluation to ensure timely operational and financial closure of projects, as well as train the operations team on financial monitoring.
Internal Control				
20.	i) Strengthen its compliance with internal controls for an	2022	CSF	i) Management notes that while guidance on Petty Cash (PC) replenishments provides that replenishments should be made before the petty cash level reaches 20



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Management Matters			
Performance audit of Investment Centre (CFI)			
7.	Effectively track invoices and strengthen the mechanism for monitoring performance of consultants. (Paragraph 92)	2022	CFI  This recommendation has been implemented. CFI developed a monitoring system to track payment of invoices in Q1 2020. The monitoring is implemented on a quarterly basis and all payments by counterparts are processed on a timely basis.  CFI assesses the performance of the consultants based on the deliverables or outputs produced, as indicated in the key performance indicators in the Terms of Reference. CFI supervisors complete a Quality Assessment Review at the end of each assignment, which has been recorded in Taleo since 2018, in line with FAO corporate policy.
PERFORMANCE AUDIT ON “PROGRAMME BUDGET, WORK PLANNING AND REPORTING OF PROGRAMME IMPLEMENTATION”			
Listing of projects under Work Plan Resources in Programme Planning Implementation, Reporting and Evaluation Support System (PIRES)			
9.	Refine the algorithm in PIRES for listing projects under workplan Resources to include only those projects which contribute to achieving the workplan outputs of that country. (Paragraph 116)	2022	OSP  The list of projects currently available for selection includes those which potentially could contribute to the workplan of a country, including regional and multi-country projects. The Country Office preparing the workplan had the option to select relevant projects from this list. The criteria will be reviewed for the next workplanning process.
COMPLIANCE AUDIT FINDINGS			
Procurement			
13.	Reasons for variation between planned and actual procurements be identified and	2022	CSL  CSLP introduced in 2022 an online Procurement Plan module for the use of Decentralized Offices and submitted a Business Change Request so that Purchase

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	addressed appropriately so as to ensure that planning serves its requisite purpose. (Paragraph 143)			<p>Requisitions submitted in GRMS that are part of the Procurement Plan are clearly flagged.</p> <p>CSLP will continue broader awareness raising on the matter, through Regional Offices/IPOs on the need for Decentralized Offices to critically review variations between planned and actual procurement on a yearly basis with a view to discussing identified gaps with the responsible Budget Holders and Authorized Official/FAOR/Head of Office.</p> <p>Procurement training in FETUR was delivered in May 2022 to reduce the variation between planned and actual procurements.</p>
17.	Errors in GRMS database like vendors with inactive sites should be identified and corrective measures should be taken. Vendors with repeated non-performance should be reviewed for suitable action. (Paragraph 161)	2023	CSL	<p>Regular verification of inactive suppliers is currently in place and additional actions to identify necessary corrective measures will be introduced, including through data quality activities to be implemented through the ERP Technical Upgrade Project, due to be completed by Q2 2023.</p> <p>Reporting of non-performance of suppliers based on an assessment by the buying unit, can be performed through CSLP and Service-Now.</p>
19.	Status of projects in pipeline should be periodically reviewed and updated. Projects considered no longer relevant by formulators should be marked as cancelled in a timely manner. (Paragraph 172)	2022	PSS/PSR	<p>A monitoring system is under development and is expected to be in place by 31 December 2022.</p> <p>Management notes that there is no feasibility marker in FPMIS for pipeline projects.</p>