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Organisation des Nations Unies pour l'alimentation et l'agriculture
Продовольственная и сельскохозяйственная организация Объединенных Наций
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Audited Accounts – FAO 2021
Part B – Report of the External Auditor

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

Our audit aims to provide independent assurance and to add value to the Food and Agriculture Organization (FAO) by making constructive recommendations.

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Report of the External Auditor on the Food and Agriculture Organization (FAO) of the United Nations for the Financial Year ended 31 December 2021

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Executive Summary

Introduction

Report of the External Auditor

1. The report contains the results of the audit of the financial statements and operations of the Food and Agriculture Organization of the United Nations (FAO) for the financial year ending December 2021 pursuant to Financial Regulations 12.1 to 12.10 of FAO and the additional Terms of Reference governing External Audit appended thereto.

2. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to Members, to help increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.

3. In addition to audit of financial statements, compliance audit was conducted at FAO headquarters and Regional Office (RO) for Asia and the Pacific (RAP) at Bangkok, RO for Europe and Central Asia (REU) at Budapest, Subregional Office for the Pacific Islands at (SAP) Samoa and five FAO Representations (FAORs) at Mongolia (FAMON), Democratic People's Republic of Korea (FADRK), Türkiye (FETUR), Georgia (FEGEO) and Kazakhstan (FEKAZ). These audits were conducted on areas selected based on risk assessment with the overall focus being on compliance to rules and regulations.

4. In addition, two performance audits were conducted on: (i) the FAO Investment Centre and (ii) Programme Budget, Work Planning and Reporting of Programme Implementation for the Organization. The main objective of performance audits was to strengthen economical, effective and efficient governance framework and contribute to enhancing accountability and transparency. The results of the audit on these areas and offices were communicated to FAO Management. Their responses have been incorporated in this report.

5. The report contains 20 recommendations arising from observations of audit. The recommendations have been categorized as Fundamental, Significant and Meriting Attention[1].

Overall Results of Audit

6. In line with our mandate, we audited the financial statements of FAO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB).

[1] **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.

7. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the financial year ended 31 December 2021. The financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts was found to be in accordance with the International Public Sector Accounting Standards (IPSAS). Based on our conclusion, we issued an unqualified audit opinion on the Organization's financial statements for the financial year ended 31 December 2021.

8. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the FAO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements were, in all significant respects, compliant with the Financial Regulations and legislative authority of the FAO.

9. We, however, identified important issues that need to be addressed by Management to further improve recording and reporting of financial management. The report includes audit observations on the financial management of the Organization for the period ended 31 December 2021.

Key Audit Findings

A. Financial Audit

Revenue recognition

10. In 2021, FAO Management reviewed and revised the accounting treatment retrospectively in conjunction with its accounting policy and provisions of IPSAS 23[2] to recognize revenue from voluntary contributions upon signature of the donor agreement by both the parties as against its earlier treatment of recognizing revenue equivalent to the invoiced value of such contributions for a year. FAO revised its Annual Financial Statements (AFSs) in 2021 and consequently its revenue for the year 2021 increased by USD 277.4 million (USD 46.4 million in restated AFSs 2020). Similarly, there was an increase in retained earnings by USD 1522.5 million.

Refunds payable and voluntary contributions received in advance

11. Note 12.2 to AFSs 2021, referring to voluntary contributions received in advance of USD 318.9 million also included refunds payable to the donors. As the nature of voluntary contributions received in advance is different from refunds payable to donors, we recommend that FAO Management consider disclosing voluntary contributions received in advance and refunds payable to the donors separately.

[2] IPSAS 23 on Revenue from non-exchange transactions

Bank reconciliation statements and non-reconciliation of year end balances

12. Review of Bank Reconciliation Statement of 26 bank accounts maintained by FAO headquarters (HQ) for the month ending 31 December 2021 revealed that 71 sub-ledger entries of previous years were un-reconciled to date out of which 41 entries remained un-reconciled for more than 2 years (prior to year 2020). We also pointed out that the General Ledger (GL) balance as per trial balance was incorrectly presented in the Bank Reconciliation Statement Report in respect of one account due to a reporting error.

B. Performance Audit of FAO Investment Centre (CFI)

13. FAO Investment Centre (CFI) works closely with governments, international financing institutions and other partners through a unique business model to promote greater and more effective public and private investment in its mandated areas. CFI was created in 1964 with a mandate to help Member Nations develop agricultural investment projects which could be funded by the International Financing Institutions (IFIs) as well as to provide technical assistance to countries to implement such projects. Design and implementation support accounts for 86 percent of the Centre's work.

14. CFI also conducts policy support activities like policy studies, sector studies, agricultural strategies, public private policy etc. in around 100 countries. Policy support activities are driven by the demands of Member Nations and are often the precursor to project identification. In 10 randomly reviewed projects, we appreciate that the output expected from CFI assignments was well-documented. However, assessment of value addition in the policy support activities attributable to CFI's inputs was not being carried out. There is a need for better metrics to enable assessment of overall effectiveness of value addition in the policy support activities attributable to CFI's inputs. We however acknowledge the constraints CFI faces due to vacancies in its professional cadre.

15. The portfolio of investment projects supported by CFI has been developed with a few major partners, who nevertheless provide a big share of public financing to food and agriculture. For almost 60 years, the World Bank remains CFIs largest partner, on average accounting for 70 percent of external income and accounts for 64.5 percent of total investment projects that the Centre helps to design. This is despite the fact that CFI has Memorandums of Understanding (MoU)/agreements with 27 other IFIs.

16. CFI designs investment projects that include capacity development activities and that have, inter alia, the objective of helping governments and institutions make better investment decisions. CFI has recently developed a Capacity Development for Investment Initiative (CD4I) to provide direct support. We observed that CFI does not conduct need analysis prior to undertaking capacity development initiatives. FAO Management stated that the services/solutions provided by CFI are demand driven and respond to the needs expressed by countries and financing partners.

17. A review of a sample of capacity development projects indicated that feedback of the implementing/funding/governing agency or participants was not available in most of the cases.

C. Performance Audit of Programme Budget, Work Planning and Reporting of Programme Implementation

18. The biennial Programme of Work and Budget (PWB) 2022-2023 is based on projections of funding from the assessed contributions by Members and of extra-budgetary voluntary contributions. Twenty (20) Programme Priority Areas (PPAs) have been identified for filling critical gaps and putting in place the conditions needed to drive the changes that will ultimately contribute to the achievement of the four betters (better production, better nutrition, better environment, and better life) under 2030 Agenda[3] and SDG targets. We observed wide variations in the Extra Budgetary Resources (EBR) provided for achievement of the four betters.

19. A Country Programming Framework (CPF) defines the priorities for collaboration between FAO and government of a country and the results to be achieved in the medium-term. We observed that 64 of the 154 countries did not have a valid CPF for 2022.

20. Office of Strategic Planning and Resource Management (OSP) emphasized that workplans of a country are linked with PPA Outcomes and the country's SDG targets. We observed that the algorithm in Programme Implementation Reporting and Evaluation System (PIRES) allowed incorrect linking of workplans with unrelated countries. Our review showed mismatch between these parameters: outputs, SDG targets and PPAs. We observed that 70 percent outputs in FAO did not have any reference to the projects which directly contribute to these outputs. We also found that linkages between workplan outputs and projects were not well established, with a vast majority of outputs not being referenced to projects that directly contribute to these outputs. In the absence of linkage of outputs and projects, efficient corporate level monitoring based on output indicators could not be ensured.

D. Compliance Audit Findings

21. Procurement planning assists in meeting the requirements of goods and services in an efficient and timely manner and in accordance with rules and regulations of the Organization. We observed significant variations between procurement plans and actual procurement in field offices.

22. We observed that competitive basis for award of work through Letters of Agreement (LoAs) to vendors for provision for goods/services declined steadily from 50 percent of the total ordered value in 2015 to 37 percent in 2016 and to 8 percent in 2018. In 2019 and 2021, 21 percent and 8.6 percent of ordered value respectively were awarded through competitive process. In the year 2020, not even a single LoA was awarded based on competitive selection.

23. Field Programme Management Information System (FPMIS) is an online information system to manage and monitor projects from identification to closure. In FPMIS, some projects that formulators consider as not moving into implementation phase on account of various reasons continued to be shown as

[3] The Sustainable Development Goals. Agenda that aim to bring peace and prosperity to all people by 2030.

in pipeline. At times, the project data was not updated for two to three years. FAO Management stated that there are no timelines set in the project cycle manual for "project approval under pipeline". The timelines of project approvals depend on donor schedules, as the donors are carrying out their parallel internal approval processes at their own schedules.

24. As per FAO's guidelines, operational closure for a project starts when the implementation of the project's activities is completed. Delays in project closure, ranging from few months to several years, were observed during the period under audit review.

25. Internal Controls needed strengthening in cash management, safeguarding of assets/property and engagement of consultants. We observed cases of negative petty cash balances or payments due to vendors for long periods on account of inadequate controls in petty cash management. Documentation for hiring of consultants was not complete in test-checked cases in RAP and FAORs. In REU, Performance Securities were not insisted upon even in high value contracts.

Audit Recommendations

26. On the basis of our findings, we have made the following recommendations which would contribute towards better management, enhance transparency and improve efficiency of operations:

Sl. No	Recommendation	Priority	Timeline
Financial Audit			
1.	***We recommend that FAO review the useful life of its assets (ULA) annually and incorporate the revised estimated value of assets along with the related changes in its Annual Financial Statements along with appropriate disclosure in Notes to the Annual Financial Statements to comply with the provisions of International Public Sector Accounting Standards (IPSAS).***	***Fundamental***	***2022***
2.	***We recommend that FAO institutes controls to ensure completion of all bank reconciliation within defined timelines.***	***Significant***	***As part of ongoing work***
3.	***We recommend that FAO should incorporate functionalities in Global Inventory Management Solution (GIMS) to provide oversight on utilization of inventories.***	***Merits attention***	***2022***
4.	***We recommend that FAO Management 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 appreciation of financial information by the user of the Annual Financial Statements (AFSs).***	***Significant***	***2022***
Performance Audit of FAO Investment Centre (CFI)			

5.	***We recommend that FAO Investment Centre (CFI) should develop metrics for mapping the leverage effect of its work and in measuring as well as maintain data in support of the outcome.***	***Fundamental***	***2022***
6.	***We recommend that FAO Investment Centre (CFI) should formulate an implementation strategy to build capacity in investment support based on needs analysis to identify critical gaps in knowledge and capacity.***	***Significant***	***2022***
7.	***We recommend that FAO Investment Centre (CFI) should effectively track its invoices and strengthen the mechanism for monitoring performance of consultants.***	***Merits attention***	***2022***
Performance Audit on Programme Budget, Work Planning and Reporting of Programme Implementation			
8.	***We recommend that FAO should implement a mechanism to ensure timely finalization of Country Programming Frameworks for all the countries where Country Programming Framework (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.***	***Fundamental***	***2022***
9.	***We recommend that FAO should refine the algorithm in Programme Planning, Implementation Reporting and Evaluation Support System (PIRES) for listing projects under workplan resources to include only those projects which contribute to achieving the workplan outputs of that country.***	***Merits attention***	***2022***
10.	***We recommend that the FAO should ensure integration of projects within the country work planning to the Programme Priority Areas (PPA) and the Sustainable Development Goals (SDG) targets with its contribution duly reflected in standardized output indicators, including at project level.***	***Significant***	***2022***
11.	***We recommend that FAO should 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) 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.***	***Fundamental***	***2022***
12.	***We recommend that for ensuring correctness of measuring and reporting on progress of the Organization towards the SDG goals through the standardized output indicators, FAO should :***		

	i) Ensure alignment of Country Programming Framework (CPF) outputs and SDG targets with those of United Nations Sustainable Development Cooperation Framework (UNSDCF); *ii) Consider enhancing controls to ensure that outputs defined at appropriate levels are linked to PPAs only if the Results Framework supports the PPA linkage through the common SDG targets.* *iii) Ensure formulation of workplan and Output indicators in regional and country offices is in coherence with the Results Framework.*	*Significant* *Significant* *Significant*	*2022* *2023* *2023*
	Compliance Audit		
13.	*We recommend that reasons for variation between planned and actual procurements be identified and addressed appropriately so as to ensure that planning serves its requisite purpose.*	*Merits attention*	*2022*
14.	*FAO shall endeavor to improve institutional arrangements for facilitating competitive selection of Letter of Agreement (LoA) related service providers to ensure best value for money.*	*Significant*	*2022*
15.	*We recommend that FAO ensures that controls are in place to ensure that requirements that establish transparency in procurement are adhered to and related records are uploaded by individual offices in Global Resource Management System (GRMS) for record and review.*	*Significant*	*As part of ongoing work*
16.	*We recommend that Subregional Office for the Pacific Islands (SAP) Management should bring in systems to ensure that contracts are not renewed without mandatory contract breaks.*	*Significant*	*2022*
17.	*We recommend that errors in Global Resource Management System (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.*	*Merits attention*	*2023*
18.	*We recommend that controls measures be implemented to ensure that management actions for timely project closures are undertaken.*	*Significant*	*As part of ongoing work*
19.	*We recommend that status of projects in pipeline should be periodically reviewed and updated. Projects that are considered no longer relevant by formulators should be marked as cancelled in the system in a timely manner.*	*Merits attention*	*As part of ongoing work*

20.	***We recommend*** • ***FAO needs to strengthen its compliance with internal controls for an efficient management of petty cash and to safeguard its assets and property.*** • ***FAO should bring in controls in Global Resource Management System (GRMS) to ensure that no ineligible unmatched procurements are allowed.*** • ***FAO should develop modalities for better communication with field offices for ensuring timely retirement of sold assets from the asset register.***	***Significant***	***2022***

Management has accepted all the recommendations.

MANDATE, SCOPE AND METHODOLOGY

Mandate

27. The Comptroller and Auditor General of India was appointed by the 161st Session of the FAO Council as External Auditor of the Organization for a period of six years commencing with the year 2020.

28. External Audit draws its mandate from Article 12 of Financial Regulations of FAO which states that audit shall be conducted in conformity with generally accepted common auditing standards and subject to any special directions of the Finance Committee, in accordance with the Additional Terms of Reference set out in Annex I to these Regulations. The External auditor, in addition to certifying the accounts, may make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of the Organization.

29. This is the second year of our audit mandate and the second Report to be issued on an annual basis by the Comptroller and Auditor General of India as the External Auditor.

Scope

30. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It includes the assessment of the accounting principles used and significant estimates made by the Organization, as well as the overall presentation of the financial statements. It also includes an assessment of FAO's compliance with Financial Regulations and legislative authority.

31. The primary objectives of the audit are to provide an independent opinion on whether:

a. the financial statements present fairly the financial position of FAO as at 31 December 2021, the results of its financial performance, the changes in its net assets/equity, the cash flows of the Organization and the comparison of its budget with actual amounts of expenditures for the financial year ended 31 December 2021 were in accordance with IPSAS;

b. the accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and

c. the transactions that have come to our notice or that we have tested as part of the audit, comply in all significant respects with the Financial Regulations and legislative authority.

32. We conducted a review of the Organization's operations pursuant to Financial Regulation 12.4 and made observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of its operations. Those matters are addressed in the relevant sections of this Report.

33. During the financial year 2021, apart from the audit of the financial statements at headquarters, we audited the Regional Office for Asia and the Pacific (RAP) at Bangkok, Regional Office for Europe and

Central Asia (REU) at Budapest, Subregional Office for the Pacific Islands (SAP) at Samoa, and five FAO Representations (FAORs) at Mongolia (FAMON), Democratic People's Republic of Korea (FADRK), Türkiye (FETUR), Georgia (FEGEO), and Kazakhstan (FEKAZ).

34. Performance Audits of the working of the FAO Investment Centre and Programme Budget, Work Planning and Reporting of Programme Implementation for FAO were carried out. We audited the financial statements of the FAO Credit Union for the financial year 2020 and issued a separate report. Further, we reviewed and certified the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely the United Nations Development Programme (UNDP) and the Global Environment Facility (GEF).

35. All the audits except financial and compliance audit at FAO headquarters were carried out remotely from India owing to travel and related restrictions following the coronavirus disease (COVID-19) outbreak.

Methodology and auditor's responsibilities

36. We conducted our audit in accordance with the International Standards on Auditing (ISA). These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatements. The audit includes examining evidence supporting the amounts and the disclosures in the financial statements on a test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements. We adopted the Risk-based Audit Approach in the audit of the financial statements based on an understanding of the entity and its environment, which requires the conduct of risk assessment to identify all possible material misstatements in the financial statements and the assertions accompanying it.

37. The External Auditor's responsibility is to express an opinion on the financial statements based on an audit. An audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free from material misstatements caused by either fraud or error.

38. We also reviewed the effectiveness of management controls in key areas of operations, risk management, operations of selected regional and country offices with a focus on project implementation, procurement management, asset management, travel management and internal control environment in line with Financial Regulation 12.4. We coordinated our planned audit areas with the Office of the Inspector General (OIG) to avoid unnecessary duplication of efforts and determine the extent of reliance that can be placed on the latter's work. We also collaborated with the Oversight Advisory Committee to further enhance our audit work.

39. We reported the audit results to FAO Management in the form of Management Letters which contain detailed observations and recommendations. We issued 11 audit management letters to the FAO heads of divisions and heads of regional and country offices during the financial year 2021. The practice provides for a continuing engagement with the FAO Management.

AUDIT FINDINGS AND RECOMMENDATIONS

Follow-up of previous external audit recommendations

40. The External Auditors of FAO make recommendations for improvements in the working of FAO in the long form Audit Report each year. The status of implementation/compliance of recommendations made in previous years' External Auditor Reports as provided by Management at the time of the audit for the financial year 2021 is presented in the following table. A separate document will be presented to the 194th Session of the Finance Committee with an updated status of recommendations:

Table 1

External Audit Report	Total Recommendations	Outstanding as per External Audit Report 2020	Implemented	Outstanding recommendations
2017	29	3	1	2
2018	41	8	1	7
2019	42	32	15	17
2020	48	N.A.	12	36
Total	**160**	**43**	**29**	**62**

Source: Information provided by FAO

41. Table 1 shows that out of 48 recommendations made by external auditor during audit of the financial year 2020, 12 (25 *percent*) have been implemented and the remaining 36 are in the process of implementation. There were 43 outstanding recommendations for the period 2017 to 2019, out of which 17 (40 percent) have been implemented.

RESULTS OF AUDIT

42. This section presents the results of the audit for the financial year 2021, which covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Governing Bodies. To ensure balanced reporting and to co-develop solutions, we afforded FAO Management the opportunity to respond to our audit observations and recommendations. The recommendations provided to Management are

designed to support the objectives of FAO's mandate, to reinforce accountability and transparency, and to improve FAO's financial management and governance.

A. FINANCIAL AUDIT

1. Financial Overview

43. FAO's surplus of revenue over expenditure increased from USD 297.05 million in the year 2020 to USD 437.67 million in the year 2021. As a result, net assets of FAO increased from USD 2,278.14 million at the end of 2020 to USD 2,727.80 million at the end of 2021 due to an increase in accumulated surplus by USD 437.67 million. The increase in surplus was due to a 21 percent increase in voluntary contributions. Voluntary contributions of USD 1,540.95 million received during the year 2021 constitute 72.41 percent of the total revenue, while Assessment of Member Nations under Regular Programme of USD 505 million form 23.75 percent of the total revenue during the year 2021. Total expenditure of FAO increased marginally by 8 percent in the year 2021 mainly due to increases in consultant expenses, employee benefits and other personnel costs. Expenses on consultants accounted for nearly 50 percent of the increase in expenditure, while employee benefits accounted for around 15 percent.

44. Investment income reduced by USD 11.56 million during 2021 mainly because of reductions in return on investments held for trading and liquidity deposits.

45. The total assets of FAO increased from USD 4,397.34 million at the end of the year 2020 to USD 4,959.28 million at the end of the year 2021. The increase was mainly due to an increase in cash and cash equivalents by USD 216 million during the year 2021, accounting for nearly 39 percent of the increase in total assets. Cash and Cash equivalent increased during 2021 mainly due to increases in cash with investment managers (USD 131.53 million), and short-term deposits (USD 195 million).

46. Total liabilities increased from USD 2,119.20 million at the end of 2020 to USD 2231.48 million at the end of the year 2021 mainly due to an increase in 'Payments received in advance' i.e. Contributions received in advance from USD 329.54 million in 2020 to 375.22 million in 2021, registering an increase of 14 percent. This accounted for nearly 40.68 percent of the increase in total liabilities.

2. Financial Management

47. We analysed the liquidity and solvency of FAO to assess its ability to meet its short-term commitments, long term obligations and operating needs. The results of analysis are discussed in succeeding paragraphs.

Short term Solvency

48. The current ratio and quick ratio of the FAO consistently remained more than three in the last three years which is indicative of high liquidity and sound solvency to meet its short-term liabilities as shown at Table 2.

Table 2

Ratio	2021	2020	2019
Current Ratio[a] (Current Assets/Current Liabilities)	4.72	4.53	3.11
Quick Ratio[b] (Quick Assets/Current Liabilities)	3.08	4.58	3.08
Cash Ratio[c] (Cash and current investments/Current liabilities)	3.00	2.96	2.59
Total Assets to Total Liabilities Ratio[d]	2.22	2.07	1.20

Source: FAO 2021, 2020, 2019 financial statements

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.
[b] Quick Ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.
[c] Cash Ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.
[d] A high ratio is a good indicator of solvency.

Long term Solvency

49. We assessed the ability of FAO to meet its total liabilities using the Total Liabilities to Net Assets ratio as at Table 3.

Table 3

Description and Ratio	2021	2020	2019
Total Liabilities (Millions of USD)	2,231.48	2,119.21	2,087.91
Net Assets (Millions of USD)	2,727.79	2,278.14	413.25
Total Liability to Net Assets Ratio[e]	0.82	0.93	5.05

Source: FAO 2021, 2020, 2019 financial statements

[e]A low ratio is an indicator of sufficient solvency.

50. The total liabilities, which were 5.05 times of the net assets in the year 2019, reduced over the two years to 0.82 during the year 2021. The reason for change in ratio was the change in policy for revenue recognition for voluntary contributions.

Changes made in the Financial Statements and Note Disclosures on the recommendations of Audit:

51. Based on our audit observations and recommendations, we worked with the Management to help secure necessary amendments in the financial statements for the year 2021 and additional disclosures in the Notes to Financial Statements to improve transparency. We appreciate Management's efforts to implement these changes for ensuring compliance with the reporting requirements of IPSAS. Some of the important amendments recommended by audit and carried out by the Management, are outlined in Annexure 1.

AUDIT FINDINGS

Revised useful life of assets (ULA)

52. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates[4], the change(s) shall be accounted for as a change in an accounting estimate. IPSAS 3 provides that to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change.

53. During the audit of Annual Financial Statements (AFS) 2020, we had recommended that FAO may reassess the useful life of its assets (ULA) to reflect fair presentation as per IPSAS and to ascertain the reasonable estimate of useful life of assets for their further utilization or disposal. The agreed timeline for implementation of this recommendation was 2021. In a response to an audit observation raised during external audit of the AFSs 2021, FAO Management confirmed that ULA policy was revised in December 2021 with the intention to implement it prospectively as of 1 January 2022. The impact of revised ULA in the Financial Statements for the year ended 31 December 2021 as worked out provisionally by FAO Management and apprised to External audit stood at USD 2.7 million (depreciation) and USD 6.2 million (carrying amount of assets). However, FAO explained that revised ULA was not incorporated into Financial Statements for 2021 because of technical reasons in their ERP System.

Recommendation 1: We recommend that FAO review the useful life of its assets (ULA) annually and incorporate the revised estimated value of assets along with the related changes in its Annual Financial Statements and appropriate disclosure in Notes to the Annual Financial Statements to comply with the provisions of International Public Sector Accounting Standards (IPSAS).

54. Management agreed with the recommendation to implement the revised useful life of each category of assets along with related changes and appropriate disclosure in Notes to the AFSs starting from 2022.

Capitalization of Assets under Construction and Assets that require installation and commissioning

55. According to IPSAS 17, depreciation of assets begins when it is available for use. We observed that ten assets valued USD 1.5 Million with construction completed in 2021 were not moved to the list of Assets from the lists of Assets under Construction (Note 9) of AFSs. In response to our observation, Management stated that although the Purchase Orders were closed on the system in December 2021, these continued to be shown as Construction in Progress (CIP) due to delay in receipt of information from field offices regarding status of construction/renovation of these works, pending internal approval for self-constructed

[4] IPSAS 17 on PROPERTY, PLANT, AND EQUIPMENT

assets, and so on. In response to this observation, Management revised the accounting of CIP assets in its revised financial statements for the year 2021. However, coordination with field offices needs to be strengthened for timely capitalization of assets in books of accounts.

56. We also observed that FAO capitalises CIP assets on the last payment date i.e., after completion of defect liability period and not on the date of availability of asset for use. For assets which also require installation and commissioning, FAO uses date of receipt of assets as date of capitalization and not the date of actual commissioning or the date on which the utilization of assets is initiated.

57. These practices are not in line with IPSAS which states that depreciation of an asset begins when it is available for use. Management stated that this happens because date of commissioning of assets was not being recorded in Global Resource Management System (GRMS).

Bank Reconciliation Statements and non-reconciliation of year end balances

58. As per FAO Manual provisions, the Director, Finance Division or his delegate shall ensure regular and timely reconciliation of all headquarters bank accounts and shall ensure that reconciliations are performed for all bank accounts at locations away from headquarters. Heads of Offices away from headquarters shall arrange for the timely reconciliation of their bank accounts locally. As per Corporate Finance division (CSF) policy, bank reconciliation should be done within 30 days of end of month.

59. Review of Bank Reconciliation Statement of 26 Bank Accounts maintained by FAO HQ for the month ending 31 December 2021 and data of un-reconciled accounts/subledger entries provided by FAO brought out the following issues:

(a) Error on bank reconciliation statement report

60. As on 31 December 2021, there was un-reconciled difference of USD 30.54 million in respect of one bank account, reported in the bank reconciliation statement report provided during audit. This was due to incorrect presentation of the GL balance in the reconciliation report.

(b) Un-reconciled transactions

61. As per Corporate Finance (CSF) policy the bank accounts should be reconciled within 30 days of the end of the month. We observed that, 71 sub-ledger entries of previous years were un-reconciled to date. 41 entries remained un-reconciled for more than 2 years (prior to year 2020). Further, one Bank account of Antigua and Barbuda remained un-reconciled since August 2019. It was stated that the account was not reconciled for it being dormant. Dormant or otherwise, delayed/non-reconciliation entails the risk of losses or gains remaining undetected and may also result in incorrect financial reporting in the financial statements.

Recommendation 2: We recommend that FAO institutes controls to ensure completion of all bank reconciliation within defined timelines.

62. While agreeing with the audit recommendation, Management stated that some historical issues take considerable research and it is working with responsible parties to investigate. In addition, more than 40 countries have auto bank reconciliation for the majority of transactions, and this is expected to increase in 2022.

Unutilized inventories

63. Test check of utilization of inventories of four country offices (Democratic Republic of Congo, Yemen, South Sudan and Somalia) revealed that 100 percent of inventories received during the period 2014 to September 2021 and valued at USD 1.65 million, were lying unutilized as on 31 December 2021. FAO headquarters did not have a system to monitor utilization of inventories through Global Inventory Management Solution (GIMS).

Recommendation 3: We recommend that FAO should incorporate functionalities in Global Inventory Management Solution (GIMS) to provide oversight on utilization of inventories.

64. Management agreed with the recommendation and stated that it would be possible to monitor unutilized inventories once the 'Inventory Module' is fully implemented in GRMS.

Refunds payable and voluntary contributions received in advance

65. As per note 12.2 to AFSs 2021, voluntary contributions received in advance of USD 318.9 million also included the refunds payable to the donors. The note did not disclose the amount of refunds payable to donors. As the nature of voluntary contributions received in advance is different from the refunds payable to donors, we are of the view that the amount of refunds payable to donors may be segregated from USD 318.9 million depicted as payments received in advance as on 31 December 2021 to depict the refunds payable separately in the Statement of Financial Positions as on 31 December 2021, with corresponding comparative amounts of the year 2020 in compliance of Para 89 of IPSAS-1.

Recommendation 4: We recommend that FAO Management 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 appreciation of financial information by the user of the Annual Financial Statements (AFSs).

66. Management accepted the recommendation and stated that the recommendation is to be addressed as part of adoption of new revenue recognition standards expected to be issued shortly.

B. MANAGEMENT MATTERS

Performance Audit of FAO Investment Centre (CFI)

Introduction

67. FAO works closely with governments, international financing institutions and other partners to promote greater and more effective public and private investment in its mandated areas. This work is carried out by the FAO Investment Centre (CFI) under a unique business model. CFI was created in 1964 with a mandate to help Member Nations prepare agricultural investment projects which could be funded by the International Financing Institutions (IFIs) as well as to provide technical assistance to countries to implement such projects.

68. In addition to design and implementation support, CFI provides support to countries in developing multi-stakeholder and multi-partner investment strategies aligned with national priorities.

69. CFI had an annual budget of USD 34 million during the six-year period of which 44 percent was from Regular Programme (RP) Budget of FAO, with 53 percent from external sources. The share of external income declined from 60.2 per cent in 2018 to 54.6 percent in 2020 and then 50 percent in 2021, with a proportionate increase in the Regular Programme Support budget to 50 percent in 2021 following the regular Programme increase.

70. Our performance audit aimed to examine the performance of CFI, assess its preparedness to forge new paths, identify critical gaps in resources, policies, and governance and to provide recommendations on positioning to meet emerging priorities of countries and partner financing institutions, while maintaining its technical rigor and integrity.

Audit Scope and Approach

71. The Performance Audit covers the period from 2016 to 2021. The role of International Financial Institutions (IFIs), other Technical Divisions of FAO and various sovereign Governments, who do business with FAO, do not fall within the scope of this audit. Audit also restricted itself to the activities of the CFI, Corporate Office at Rome.

72. Audit was conducted remotely by obtaining records/data from the FAO Investment Centre, Rome, and accessing the ERP/IT platforms of FAO, CFI like the FPMIS[5] and TCIMIS[6]. Audit did not independently validate the authenticity of data and information provided by CFI/available on the IT system.

Audit Findings and Recommendations

Additional Fund Allocation to FAO Investment Center (CFI)

73.The June 2020 session of the FAO Council proposed an increase of USD 8 million per biennium to the CFI (an almost 28 percent increase in its Regular Programme budget) as part of the further adjustments to the Programme of Work and Budget 2020-21. The proposed increase of net appropriation funding to be supported with matching additional funds from IFIs and other CFI partners. In August 2020, CFI 2020-21 budget was increased by USD 5.3 million to include the remaining 2020-21 share (16 months) of the approved biennial increase of USD 8 million.

74. It was anticipated, that an additional USD 16 million per biennium would result in approximately USD 800 million more in food and agriculture investments, with a strong support to Hand-in-Hand priority countries. By the end of the biennium, CFI has supported the design of an additional portfolio of USD 1.5 billion, exceeding the target by USD 700 million (85 percent). We observed that CFI could not utilize RP funds to the tune of USD 9.1 million (28 percent) of the allocation in the biennium 2020-21 (Table 4). CFI attributed the unspent balances to reduced travel due to COVID-19 in 2020-21 and to the very high vacancy rate, which led to much lower spending on staff salaries, etc.

Table 4: Allocation and utilization of Regular Programme funds by CFI during 2020-21

Year	RP allocation to CFI (USD)	Utilization of RP funds by CFI (USD)	Savings (USD)
2020	15,355,759	7,362,273	7,993,486 (52 percent)
2021	17,688,998	16,745,017	943,982 (5 percent)
Total	**33,044,757**	**24,107,290**	**8,937,467 (27 percent)**

******Figures in parentheses are savings as percent of RP allocation*

75. As documented in its Annual Reviews for 2019, 2020 and 2021, the investment Centre supported new (public) investments in the range of USD 5.7 billion, USD 6.6 billion and USD 7.2 billion respectively, an increase of USD 1.5 billion, exceeding the target of generating additional investments of USD 800 million,

[5]Field Programme Management Information System
[6]TCI Management Information System

by 700 million (87.5 percent). CFI was not able to provide specific information to track the multiplier effect of the additional allotment leading to further additional investments and the magnitude thereof, thereby making it difficult to ascertain whether and how much of the additional investment mobilized could be attributed to the additional allotment.

76. Further to its major work financed under cost-sharing arrangements with IFIs (such as the World Bank, IFAD, EBRD, etc.), additional initiatives are undertaken to consolidate and expand partnerships with some IFIs and funding partners like CABEI[7], CDP[8], EU, EIB[9] through trust funds. Trust-fund financed work represents 11 percent of CFI activities in 2021 (with a TF portfolio valued at about USD 17 million), most have been developed over the last 3 years. Out of the six new 'Trust Funds', one project did not materialize, one has issues with the funding agreement, one is awaiting local Government feedback on the proposal, and the remaining three are in the signing stage.

77. CFI assists national governments in creating enabling environments favourable to public and private investment in food security, nutrition, agriculture and rural development and to form appropriate legal, policy and institutional frameworks to support infrastructure and services, especially for small-scale farmers. It also facilitates public-private policy dialogue through multi-stakeholder platforms and thematic clusters. Policy support activities account for 14 percent of FAO Investment Centre's work in around 100 countries.

78. In 10 randomly reviewed projects, we observed that although the output expected from CFI assignments are well-documented, assessment of value addition in the policy support activities attributable to CFI's inputs was not possible. CFI informed that value addition by CFI is not tracked at the level of individual assignments and there is no system of obtaining structured feedback from partners and/or National Governments. CFI stated that policy support very often requires sustained engagement over several years before positive change can be documented.

79. Management agreed to modernize and further develop a mechanism to track its results based on the new work planning exercise associated to the new strategy (the *Four Betters*) and report its key results in the FAO corporate documents - the Mid Term Review and Programme Implementation Report.

Recommendation 5: We recommend that FAO Investment Centre (CFI) should develop metrics for mapping the leverage effect of its work and in measuring as well as maintaining data in support of the outcome.

[7]Central American Bank for Economic Integration
[8]Cassa Depositi e Prestiti
[9]European Investment Bank

80. Management, while agreeing with the recommendation, assured to further develop metrics for monitoring the leverage effect of its work.

Diversification of Implementation Partners

81. The strategic plan of FAO 2022-2031 states that the estimated cost of achieving the SDGs is USD 2.5 trillion per year, while the availability of Official Development Assistance is approximately USD 153 billion per year. It is therefore evident that public funding through official development assistance alone will never be enough to fill the gap. The budget and expenditure of the CFI could be broadly divided into two categories: General Funds and the Trust Funds. The General Funds constitute of income from IFIs and FAO's RP allotments. The Trust Funds are a source of additional external income for the CFI, originating from a Member Nation or a donor partner. In respect of internal funding through Trust Funds, CFI has a greater role (as compared to IFI funded investment) in designing, implementation and oversight of these much smaller projects.

Table 5: Income from IFIs

IFI	**Income**	
	In Millions of USD	**Percentage**
World Bank (WB)[10]	77.39	71
IFAD	10.94	10
Others[11]	20.61	19
Total projects	**108.94**	**100**

82. We observed that the World Bank has remained CFIs largest partner, accounting for 70 percent of external income of CFI over the six-year period (Table 5). Management stated that agreements are based on the comparative advantage of each partner, and are tailored to achieve common objectives, while taking into account the specific institutional, operational and financing modalities of every partner. Agreements evolve over time and are revisited to adapt to new situations and contexts.

83. While the World Bank has been and will remain a major IFI partner, a limited funding leads to risk of incomplete delivery of its mandate on investment and finance support solutions. Management stated that while it agrees that it is useful to expand the use of Trust Funds, such expansion would equally depend on

[10]WB includes World Bank (IDA), Other Global Agriculture and Food Security Programme (GAFSP) through WB and Other WB projects.

[11]Others include The African Development Bank (AfDB), Central American Bank for Economic Integration (CABEI), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), European Union (EU), Inter-American Development Bank (IDB), Green Climate Fund (GCF), Global Agriculture and Food Security Programme (GAFSP) and Technical Cooperation Programme (TCP).

the partners and their specific business models and modalities of work. It was stated that CFI has already signed two new Trust Fund (TF) projects with the European Commission in 2021. Management also stated that the areas of expansion have been indicated in the Transformation plan and an implementation plan to identify all key partners to initiate collaboration would be developed.

Capacity Development and Knowledge for Investment (K4I)

84. CFI under its capacity development initiative, has the objective of helping governments and institutions make better investment decisions. During the period from 2016 to 2020, CFI undertook 96 capacity development activities.

85. Review of seven sampled capacity development projects indicated that feedback of the implementing/funding/governing agency or participants was available only in the case of two projects[12]. Further, the CFI has stated to have assessed the impact of only two out of 96 initiatives[13]. It was also observed that CFI does not conduct need analysis prior to undertaking capacity development initiatives.

86.CFI stated that most of these activities were undertaken within the context of specific projects or in response to specific demand; and that capacity development is a priority for all of FAO and is thus present in nearly all FAO–led projects and programmes by technical units. CFI also stated that it does not consider capacity development as a stand-alone function and hence resources have not been assigned to the planning and reporting on it as a separate function.

87. We further observed that the Programme Priority Area on Better Life 7 (PPA-BL7) on "Scaling up Investment" which is led by CFI under the new strategic framework of FAO, envisages data collection and analysis for impact assessment and capacity development at national level. In the absence of needs analysis, impact assessment and feedback, CFI would not be able to evaluate the effectiveness, identify gaps and undertake course corrections.

Recommendation 6: We recommend that FAO Investment Center (CFI) should formulate an implementation strategy to build capacity in investment support based on needs analysis to identify critical gaps in knowledge and capacity.

88. The Management accepted the recommendation.

Internal Controls

[12]Awareness raising events on African Swine fever mitigation and prevention' and 'Training on deficit irrigation in Tunisia'.

[13]Awareness raising events on African swine fever mitigation and prevention' and 'Training on assessing Carbon Balance through EX Act Methodology'.

89. We examined the controls related to recovery of receivables, performance monitoring of consultants and monitoring of achievement vis-à-vis the planned outputs. The results are narrated in succeeding paragraphs.

a) Monitoring of Receivables

90. CFI issues invoices on services provided in IFI-cost shared assignments, services provided to individual countries and other receivables. We observed that receivables for some invoices relating to services rendered by CFI were long outstanding. Age analysis of Receivables of CFI during the period 2016-2020 revealed that invoices amounting to USD 36 454[14] were outstanding for more than five years whereas invoices amounting to USD 194 793[15] and USD 38 500[16] were pending for 3-5 years and 1-3 years respectively.

91. CFI informed that a monitoring system to track the invoicing of IFI-cost shared assignments was set up in 2019 and the monitoring of payment of invoices was set up in early 2020 for timely follow-up. The pending invoices pertain to an earlier period.

b) Performance Monitoring of Consultants

92. In CFI, national consultants are under the purview of country offices, as the funds are delegated to the country offices, whereas international consultants are under the purview of the Lead Technical Officers of concerned projects who are tasked with tracking project progress and deliverables. Performance of all consultants are monitored on the basis of the Assignment Summary Report (ASR) against the Terms of Reference (TORs) of their appointment. A test check of eight Terms of Reference (ToRs) and Assignment Summary Report (ASR) of one project i.e. 'Awareness raising events on African swine fever mitigation and prevention' revealed that in three cases the ASRs were submitted with delay. Out of eight ToRs, seven ToRs stipulated certification of satisfactory completion of tasks by the supervising economist but such certificate was not attached with ASR.

Recommendation 7: We recommend that FAO Investment Center (CFI) should effectively track its invoices and strengthen the mechanism for monitoring performance of consultants.

93. The Management accepted the recommendation.

[14]African Development Bank (AfDB) invoice dated 17 October 2014.
[15]AfDB invoices (i) USD 11 144 dated 09 August 2017 (ii) USD 11 338 dated 22 June 2018 and Govt. of Mali invoice dated 19 July 2018 for USD 172 311.
[16] Govt. of Honduras invoice dated 02 July 2020.

Performance Audit of Programme Budget, Work Planning and Reporting of Programme Implementation

Introduction

94. Since 2010, all of FAO's work is guided by a 10-15 year Strategic Framework, which is reviewed every four years. The new strategic framework of 2022 covers the period 2022-31 and aims to support the 2030 Agenda[17] through transformation to a more efficient, inclusive, resilient and sustainable agrifood systems for *better production, better nutrition, a better environment, and a better life*, leaving no one behind. These are called *four betters* and act as broad principles for how FAO intends to contribute directly to Sustainable Development Goal (SDG) 1 (No poverty), SDG 2 (Zero hunger), and SDG 10 (Reduced inequalities) as well as to support achievement of the broader SDG agenda, which is crucial for attaining FAO's overall vision.

95. Twenty Programme Priority Areas (PPAs) have been identified for guiding FAO on filling critical gaps and putting in place the conditions needed to drive the changes that will ultimately contribute to the achievement of the selected SDG targets. The Medium-Term Plan 2022-25 and Programme of Work and Budget 2022-23 demonstrate how the *four betters* and 20 Programme Priority Areas are anchored in the SDGs, with specific targets and indicators associated with each PPA. The biennial Programme of Work and Budget (PWB) is funded from the assessed contributions by Members and an estimate of Extra-budgetary voluntary contributions. The budget estimates are prepared on a Programme-budget basis and divided into chapters and Programme objectives.

96. Biennial Work Plan is a part of the overall planning activity of FAO, through which, FAO aims to define the outputs to be delivered under the Programme Priority Areas (PPAs) to support achievement of Agenda 2030. The updated results frameworks detail the SDG indicators that will be used to measure impact under the *four betters*, and outcomes under each PPA.

Audit Scope and Methodology

97. The new Strategic Framework (2022-2031), supports the 2030 Agenda. This is therefore an opportune juncture to assess and understand the processes. These include the identification of the PPAs that support the programme implementation, allocation of resources to the four betters, and by extension, to the twenty PPAs that are embedded therein, the methodology that has been envisaged to align projects to the new framework, and finally, the way progress towards achievement of the outputs under the PPAs is envisaged to be monitored, assessed, validated and reported. The performance audit was undertaken to assess the

[17] The Sustainable Development Goals Agenda that aim to bring peace and prosperity to all people by 2030.

efficiency and effectiveness of the process of programme budgeting, work planning and reporting of results, and make recommendations for improving the processes. The Performance Audit covered the formulation and implementation of the New Strategic Framework 2022-2031.

98.The Performance Audit was conducted remotely by obtaining records/data from FAO's intranet and from the ERP platforms of FAO viz. PIRES[18], FPMIS[19]. Office of Strategy, Programme and Budget (OSP) is responsible for managing the corporate processes relating to the Programme of Work and Budget and preparing the Programme Implementation Report for reporting on delivery of results to the Governing Bodies.

Audit Findings and Recommendations

Imbalance in budget allocation due to inflexible Extra Budgetary Resources (EBR)

99. Availability of adequate resources is a necessary condition for ensuring that FAO achieves the desired outcomes under each of the 20 PPAs. The initial estimate of Extra-budgetary Resources (EBR) provided through voluntary contributions, as informed to the Council in June 2021 was pegged at USD 2250 million, comprising 69 percent of the overall resource requirements in the PWB 2022-23 The Conference in its 42nd session also pointed out the need for better balance among the four betters including through the Programme Priority Areas (PPAs) and allocation of budget.

100. However, we observed that the programme budget could not ensure balance between the Four Betters, with 54 percent of the allocation assigned to Chapter 4: Better Life.

Table 6

Chapter	Four Betters	PWB Budget (2022-23)	Percentage
1	Better Production	443,791	20
2	Better Nutrition	196,125	9
3	Better Environment	332,750	15
4	Better Life	1,221,303	54
5,7,9-10	Others	56, 156	2
	TOTAL	**2 ,250, 125**	**100%**

[18]Programme Planning, Implementation Reporting and Evaluation Support System
[19]Field Programme Management Information System

101. We were informed that imbalances amongst the PPAs are because over 95 percent of EB contributions were fully earmarked in PWB 2022-23, leaving little scope for ensuring balance between PPAs.

102. The FAO conference in its 42nd session also stressed on the importance of flexible, lightly earmarked and un-earmarked voluntary funding to support the priorities as outlined in the Programme of work and recommended FAO to further elaborate possible mechanisms and approaches to attract more flexible voluntary funding. Management stated that it is working to explore new approaches and strengthen existing mechanisms for mobilizing more flexible voluntary funding.

Programme of Work Budget: 2022-23

103. The proposed workplan paves the way for implementing the Strategic Framework through the PPAs, driving the changes towards achievement of the SDGs, in alignment with national priorities. Workplan outputs for 2022-23 were defined at the appropriate level (global, regional, national) as per the relevant processes in place.

Formulation of Country Programming Frameworks

104. The United Nations Sustainable Development Cooperation Framework (UNSDCF) is a partnership with the Government and emerges from a dialogue with the host country. A Country Programming Framework (CPF), that is aligned with and derived from the UNSDCF, defines the priorities for collaboration between FAO and government of a country and the results to be achieved in the medium-term (4-5 years, aligned to national planning cycles). The CPF takes a results-based approach that builds on FAO's comparative strengths. The management dimension of the CPF is reflected in the Results Matrix around which the document is articulated.

105. Office of Strategy, Programme and Budget (OSP) is responsible for providing guidance for an appropriate results-based formulation of the CPFs. FAO CPF guidelines stipulate that the FAO Representative at the Country level is responsible for CPF formulation, implementation, monitoring and reporting, subject to completion of all antecedent stages of the process within the broad UN framework.

106. Out of 194 Member Nations, 40 Member Nations do not have a FAO Programme and are mainly donor countries. The balance of 154 Member Nations require a CPF to be prepared and implemented. We observed that as of February 2022, seven countries did not have a CPF and CPF had expired for 57 countries.

107. The Management stated that of the 57 Member Nations:

a) 24 had extended their previous CPF

b) Two were not required to make a CPF

c) Six completed their CPF in 2022

d) 25 were formulating their CPF

108. Thus the delays were mainly in respect of 31 countries, of which six had been completed.

109. Management attributed delays in finalizing CPFs to factors such as postponement of joint consultations with government, delay in setting up of the UN resident coordinator office and preparation of the UN Joint workplans, operational challenges due to COVID-19 pandemic, etc.

110. OSP informed that in order to have an efficient CPF monitoring process, it has developed a CPF dashboard to monitor progress in CPF formulation, in collaboration with the concerned regional offices, and identify possible bottlenecks and delays for Management attention. While we appreciate Management's efforts to monitor the CPF formulation process in future, we consider that in view of the enhanced role of the CPF in the new Strategic Results Framework, an active monitoring framework for CPF formulation should have been in place prior to start of the biennium 2022-23.

Recommendation 8: We recommend that FAO should implement a mechanism to ensure timely finalization of Country Programming Frameworks (CPF) 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.

111. The Management accepted the recommendation.

Listing of projects under workplan resources in Project and Programme Implementation, Reporting and Evaluation System (PIRES)

112. PIRES was developed by the Office of Strategy, Programme and Budget (OSP) for programming, budgetary and results-based monitoring activities. The work planning activity for all the units of FAO for the biennium 2022-23 was undertaken through the PIRES application.

113. PIRES has a functionality that draws information from FPMIS, FAO's project management information system, on the list of projects that are ongoing/in pipeline stage of development, and which could be related to the current workplan for each country. We observed that the algorithm in PIRES allowed incorrect linking of workplans with unrelated countries. A sample examination of the workplan of Afghanistan brought out that of 95 projects listed as potential workplan resources for Afghanistan for 2022-23 (estimated at a budget of USD 242.15 million), nine projects with an estimated budget of USD 24.17 million did not pertain to Afghanistan. Of the nine unrelated projects, seven pertained to Ukraine and one each to Syria and Sudan.

114. Management responded that the inclusion of projects of unrelated countries in the list of projects available to workplan resources of Afghanistan was because some staff from Afghanistan FAO

representation was included in the list of staff working in projects in Ukraine, Sudan and Syria at the time of project assignment. We were informed that the list uses the staff location as a proxy to identify country involvement in a project. Management further explained that the list of projects in PIRES covers all the possibilities for a project to be relevant for a country.

115. We consider that since workplans are the means to achieve outputs under the relevant Programme Priority Areas (PPAs), it is important to ensure that the system clearly identifies workplan resources with only those projects which are instrumental in achieving the workplan outputs of that country.

116. Management assured to refine its algorithm to ensure consistency in available project linkages with the workplans.

Recommendation 9: We recommend that FAO should refine the algorithm in Project and Programme Implementation, Reporting and Evaluation System (PIRES) for listing projects under workplan resources to include only those projects which contribute to achieving the workplan outputs of that country.

117. The Management accepted the recommendation.

Alignment of Projects to workplans and Programme Priority Areas (PPAs)/SDG targets

118. FAO has standardized output measurements under the new Strategic Framework with a set of indicators that measures both quantitative and qualitative aspects of the PPAs and their contribution to SDGs. This makes it necessary that the workplan outputs (and related PPAs/SDG targets) planned for that country reflect the contribution of the projects being implemented in a country, and the projects in turn should be aligned to PPAs and SDGs.

119. We reviewed 12 projects that were approved during January 2022, under the new Strategic Framework, and found that nine of the twelve projects aligned to PPAs in the biennial PWB were not included in the approved workplans for the respective countries. Management attributed the lack of project linkages to work plan outputs largely due to a lack of an integrated information system of recording information relating to projects and workplans. Management stated that the work plan outputs, even lacking the explicit project linkage reference, fairly represent the projects under execution in a given country, along with their relevant PPA and SDGs. Management also stated that priorities evolve dynamically and it may not be appropriate to stop the approval of projects which may not yet be fully reflected in the current version of a country workplan.

120. While appreciating Management's concern, we are of the view that all projects taken up by FAO are implemented for achievement of the SDGs, and therefore should include in their results framework relevant indicators. Based on these indicators, all projects can relate to an approved PPA and workplan of

the country/ Country Programming Framework (CPF). Approval of projects outside a country workplan would not only result in incomplete/incorrect output and outcome measurements but would also reduce the relevance of the workplan and PPA as they would be having incomplete linkages of contributions to the SDGs (with some projects not included in the workplan and PPA).

Recommendation 10: We recommend that the FAO should ensure integration of projects within the country work planning to the Programme Priority Areas (PPAs) and the SDG targets with its contribution duly reflected in standardized output indicators, including at project level

121. The Management accepted the recommendation.

Reporting of Programme Implementation

122. The updated results frameworks provided in the adjusted Programme of Work and Budget (PWB) 2022-23 details the SDG indicators that will be used to measure impact under the *four betters*, and outcomes under each PPA. This necessitates a reporting framework designed to correctly record information from different levels of the organization.

Linkage of outputs in workplans to projects

123. The guidance issued by Office of Strategy, Programme and Budget (OSP) (November 2021) required the regional and country offices as well as the headquarters technical units to confirm the relevance of the FAO outputs for the 2022-23 biennium and the related information pre-loaded in PIRES, and adjust them as deemed necessary. While validating and adjusting the outputs in PIRES, regional and country offices were also required to update related elements, which includes, inter-alia, "Projects Linkage". Since many FAO outputs are delivered by implementing one or more global, regional and national projects, an option was given to reference a project to the output from a drop-down list, as relevant, and when deemed useful for managerial purposes. However, referencing of a project to the output was made optional while preparing the workplan.

124. There were 183 workplans in "Complete and Final" status having 2,481 outputs. We observed that of the 2,481 outputs, 1,730 outputs (70 percent) did not have any reference to the projects which directly contribute to these outputs. Thus, allowing the referencing of outputs to projects as an optional activity resulted in 70 percent of the outputs proposed to be delivered as per the initial workplans not having the explicit linkage reference to projects.

125. Management responded that the referencing of outputs to projects was made optional since the majority of projects were ongoing and aligned to the strategic framework 2012-21 and the related strategic objectives, and cited information systems limitations. The alignment to the newly endorsed PPAs, was undertaken from early 2022, with a deadline of 28 February 2022. Due to the large number of countries and

the variety of situations, not all countries were ready during the work planning timeframe to undertake a thorough review of their projects' alignment to CPF outputs and to PPAs. Hence it was decided to give regional and country offices and the headquarters technical units the flexibility to relate projects to outputs whenever possible. Management also stated that the new project life cycle management system PROMYS is expected to facilitate integration of information currently in the projects information system (FPMIS) and aggregated corporate information system (PIRES).

126. Since workplan implementation directs the core of FAO's activities, we consider that referencing of outputs to projects in the existing or the upcoming system should be made mandatory with an option of indicating "To Be Decided" for outputs which did not have specific projects readily assigned to them. On the other side, all projects shall also have outputs linked to them. This would ensure that every output in the workplans for 2022-23 has contributing projects linked clearly to it which would also facilitate corporate level monitoring based on output indicators.

Recommendation 11: We recommend that FAO should 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) 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 .

127. Management stated that this would be considered as part of the new project life cycle management system PROMYS, which will allow a better integration of projects, CPFs and corporate workplan databases.

Linkage of Country Programming Frameworks (CPF) Outputs, Programme Priority Areas (PPAs) and SDGs

128. Since FAO's work is envisaged to be integrated within the UNSDCF, a country's CPF is derived from the UNSDCF framework. The October 2019 guidelines on CPF stipulate that CPF flows from the UNSDCF outcomes and outputs, with relevant outcomes copied verbatim into the CPF. Additional non-UNSDCF outcomes may be exceptionally included in the CPF to capture normative work of FAO not prioritized in the UNSDCF. Further, the CPF Results Matrix, as given in CPF formulation guidelines requires each output, to be linked to the SDG targets as well. The Updated Results Framework shows how each thematic and technical competency of FAO (represented by PPA) contributes to the overall SDG targets adopted by UN under Agenda 2030.

129. We examined the extent of compliance of the above requirements by reviewing the CPF of Armenia (selected randomly) along with its UNSDCF. The following was observed:

Incomplete Linkage of Country Programming Framework (CPF) Outputs to PPAs

130. Our review of the CPF 2021-25 and workplan 2022-23 of Armenia[20] revealed a mismatch between the linkages of outputs, SDG targets and Programme Priority Areas (PPAs) as stated in FAO's Updated Results Framework and as mentioned in its CPF. We noticed that although each of the four outputs[21] is linked to a single PPA, each output was shown as contributing to five/six SDGs. This was also in contradiction to the updated results framework of FAO, in which the SDG targets linked to the CPF outputs are contributed by more than one PPA (Annexure 2).

131. Since the measurement of outputs is now envisaged to be done through workplan and linked subsequently to PPA, a partial/ incomplete linkage of outputs with PPAs would mean that FAO's interventions in the other PPAs would not be fully captured and the contribution of that CPF towards the PPAs not be correctly accounted for.

Incorrect Linkage of Outputs, PPAs and SDG Targets

132. We reviewed 183 workplans of FAO in PIRES that were in completed and final status[22] and observed that 2 481 outputs were defined at global, regional and country levels and were linked with PPAs and SDG targets in their respective workplans. Of the 2,481 outputs, 182 outputs were shown as linked with PPA "Biodiversity and Ecosystem Services for Food and Agriculture" (BE 3). As per the Adjusted PWB 2022-23, PPA BE 3 contributes to six primary[23] and six secondary[24] SDG targets. Comparison of SDG targets linked to the 182 outputs in the workplans of these countries with SDG targets contributed by PPA BE 3 as per the Adjusted PWB 2022-23, revealed that 9 out of 182 outputs in workplans linked to BE 3 do not actually contribute to any of the primary or secondary SDG targets mentioned in the Medium-Term Plan.

133. We also noticed that countries have incorrectly shown the outputs as contributing to 51 SDG targets that have no linkage with BE3 as per the Adjusted PWB 2022-23. Incorrect linkage of PPA BE 3 to outputs was observed in one out of the 14 Offices under Global/Headquarters region. In 31 out of the 78 countries/offices we observed linking of outputs under PPA BE 3 to SDG targets that were not in consonance with those stated in the Adjusted PWB 2022-23.

[20]Uploaded on COIN (Country Office Information Network) portal of FAO.

[21] Output 1.1-sustainable livelihood and decent jobs, Output 1.2-green and economic sustainable development, Output 2.1-sound management of ecosystem and mitigated pollution from waste, chemicals and other sources and Output 2.2-ecosystem and population vulnerability is reduced through increased resilience to climate change and disaster.

[22] As on 24 January 2022

[23]2.5, 14.4, 15.1, 15.3, 15.4, 15.6

[24]1.4, 2.4,13.1, 14.2, 14.6, 15.2

134. Such incorrect linkage would mean that FAO's achievement of outputs under some of the PPAs would be accounted as contributing to some SDG (s), although the PPA does not in fact cater to that particular SDG (s).

135. Management stated that that the reporting process for the current biennium will begin only from the end of the first year, by November 2022, and that while the Adjusted PWB 2022-23 gives the broad guidelines of how the reporting is planned to be done, detailed guidelines are yet to be issued. Management further advised that as CPFs are approved on a rolling basis and many of those predate the approval of the corporate framework, some transitional inaccuracies were expected but would not materially affect the overall picture. Moreover, as CPFs are revised or renewed, any inaccuracies would be corrected.

136. We consider that although the measurement and reporting of outputs occurs at the end of the first year of biennium, reporting of results is built on the Work Planning data and needs to take place as work progresses. The apparent lack of coherence in defining outputs to PPAs and SDGs has the attendant risk of incorrect reporting on the performance of the Organization in working towards the SDG goals.

Recommendation 12: We recommend that for ensuring correctness of measuring and reporting on progress of the Organization towards the SDG goals through the standardized output indicators, FAO should:

i) Ensure alignment of CPF outputs and SDG targets with those of United Nations Sustainable Development Cooperation Framework (UNSDCF);

ii) Consider enhancing controls to ensure that outputs defined at appropriate levels are linked to PPAs only if the Results Framework supports the PPA linkage through the common SDG targets.

iii) Ensure formulation of workplan and output indicators in regional and country offices is in coherence with the Results Framework.

137. The Management accepted the recommendations.

Conclusion

138. There are gaps in comprehending the linkage of outputs, PPAs and SDG targets as defined in the Strategic Framework documents at various levels of the Organization which need to be bridged. There is room for improved clarity and coherence in the areas of work planning, project formulation and output measurement which highlight the need to provide enhanced guidance on formulating workplans by countries, strengthen the process of validation of workplans at various levels and improve the integration of information systems. Since FAO has already embarked on the new SF, the methodology for capturing data on the standardized output indicators needs to be finalized in a time bound manner to allow sufficient time for the information to be adequately assimilated at different layers of the Organization. This is

important for ensuring correctness of measuring and reporting progress of work of the Organization to the Governing Bodies.

C. COMPLIANCE AUDIT FINDINGS

Procurement

139. Procurement process in FAO is being carried out as per the manual on Procurement of Goods and Services. The Procurement Authority has the overall responsibility and accountability for safeguarding the integrity of the procurement process and its compliance with this Manual. The procurement process comprises the principal stages of a) identification of needs and planning of procurement requirements; b) initiation of a procurement action; c) sourcing; d) review by the relevant procurement committee; e) approval of contractual instruments for the purchase of goods, works and services; f) management of the contractual relationship; g) monitoring of procurement actions; and h) maintaining an audit trail.

Procurement planning

140. An Annual procurement plan is made in each field office which is further segregated in separate projects. A procurement plan should be regularly updated to include new information as it becomes available, to show progress and identify delays and initiate actions to mitigate associated risks.

141. In most of the offices audited, we observed divergence between procurements planned and implemented. In some years, divergence between procurements planned and implemented was as wide as 287 percent (FETUR), 94 percent (RAP), 81 percent (FADRK), 78 percent (REU), and 43 percent (FAMON). In FEKAZ actual procurements were consistently less than planned procurements during the period covered by audit. The extent of shortfall was 61 percent and 54 percent in 2018 and 2020 respectively. In the absence of data, we could not assess the impact of the shortfalls in procurement, on projects, if any. We also observed that there was no mechanism for reporting implementation of a procurement plan.

142. In FETUR, RAP, FADRK, REU and FAMON, it was noticed that procurement plans did not contain basic information like proposed methods of procurement, quantity of goods to be procured, name of buying unit, actual dates of completing various stages of procurement process vis-a-vis targeted dates etc.

143. REU while accepting the observation relating to divergence of procurement from planned action stated that a focal point had been nominated to monitor the procurement plan and periodically communicate the results in comments to the Management. RAP and FADRK agreed to pay more attention to preparing the plan with requisite information and to use the new online planning tool introduced by the Organization to facilitate the process. FETUR proposed to provide training to relevant staff in order to reduce the divergence between actual and planned procurement. RAP, FAMON, FEKAZ and FADRK agreed to

continue monitoring the procurement action against planned milestones and to make regular updates to ensure that the plan remains a living document.

Recommendation 13: We recommend that reasons for variation between planned and actual procurements be identified and addressed appropriately so as to ensure that planning serves its requisite purpose.

144. The Management accepted the recommendation.

(i) Declining trend in competitive selection of vendors

145. As per extant financial regulations, selection of service providers should be done through competitive selection. Direct selection is permitted only under certain conditions[25]. For reasons other than those listed, direct selection could be used only when competitive selection is either not feasible or is unlikely to add financial or reputational value.

146. FAO issues Letters of Agreement (LoAs) to vendors for procurement of goods and services. The procurements through the LoAs by FAO were valued at USD 1.12 million in 2019 and USD 3.23 million in 2021. We observed that awards of LoAs based on competitive selection declined steadily from 50 percent of the total ordered value in 2015 to 37 percent in 2016 and to 8 percent in 2018. In 2019 and 2021 only 21 percent and 8.6 percent of ordered value respectively were awarded through competitive process. In the year 2020, not even a single LoA was awarded based on competitive selection.

147. In RAP, 69 out of 75 POs (92 percent) created for LoAs in 2019 valuing at USD 4.9 million, were awarded based on direct selection. The most common reason quoted was "only known in area". RAP and SAP acknowledged the need for coordinated efforts across the region to start applying competitive selection of service providers. Procurement through direct selection not only violates the financial regulation but also reduces the efficiency of procurements.

Recommendation 14: FAO shall endeavour to improve institutional arrangements for facilitating competitive selection of Letter of Agreement (LoA) related service providers to ensure best value for money.

[25] The proposed Service Provider is an Eligible Entity located in the beneficiary country and the total value of the LoA is less than USD 25 000; an eligible entity (i.e. a government ministry, department, institution, agency or office) is mandated by the beneficiary government to provide the services; an external entity such as a project/programme steering committee composed of representatives of FAO or other UN entity, the beneficiary government, donors, or other stakeholder, has determined that a particular eligible entity is better qualified and/or placed to provide the services than any other eligible entity; the proposed Service Provider is the only known eligible entity able to provide the services required in the proposed geographical area; the proposed Service Provider is the owner or holder of intellectual property fundamental to the services to be provided, and research indicates that no other eligible entity has access to such intellectual property.

148. The Management accepted the recommendation.

(ii) Local Procurement Committee (LPC) Composition and Quorum requirements not met

149. The LPC is established at each regional and country office and is responsible for undertaking an independent review of the procurement process when requested by a buyer or procurement authority. The review requirement may apply at the request stage, prior to tender issuance or at the award stage, depending on the expected or actual total value of the procurement action, the nature of the procurement action, the term of the contract or agreement and/or the Award Basis. Before proceeding with a procurement action, the Buyer will ensure the LPC has reviewed the submission and has provided its recommendation.

150. A test check of purchase orders in SAP showed that minutes of LPC meetings were not uploaded on their ERP System GRMS in 17 out of test checked 33 cases. As a result, the minutes were not available for review. In the remaining 16 cases where minutes of LPC meetings were available for review, the LPC quorum was not met in 9 cases. In FADRK, LPC quorum was not met in 64 out of 65 cases of procurement undertaken during the audit period. In FAMON, in one case, we observed that one of the technical evaluators of the responses received against Request for Proposal was also one of the members of LPC, thereby violating the principle of segregation of duties.

151. Subregional Office for the Pacific Islands attributed the meeting minutes not being uploaded in GRMS to oversight. It further stated that procurements are undertaken with exceptions to the quorum with due permission from the Procurement Authority who, as per their delegated authority may establish a quorum of three or four members after considering the complexity of procurement activities and other relevant circumstances such as staffing constraints. Going forward, SAP assured to upload all approvals from Procurement Authority for LPCs with less than five voting members in GRMS as supporting documents. FAMON assured to ensure clear segregation of duties in all procurement activities. FADRK stated that the limited number of staff members is a challenge in the segregation of duties of the procurement function.

Recommendation 15: We recommend that FAO ensures that controls are in place to ensure that requirements that establish transparency in procurement are adhered to and related records are uploaded by individual offices in GRMS for record and review.

152. The Management accepted the recommendation.

(iii)Performance Securities

153. FAO's Manual guidelines on Contract Management for service contracts and framework agreements stipulate that performance securities are required for all high value, technically complex contracts or construction contracts to secure the performance of the contract, including during its maintenance period/defects liability period.

154. A review of 35 POs out of a total of 823 POs issued by REU during the period 2018-2021 brought out that the REU procurement Unit had not obtained performance security/guarantees from the suppliers/contractors in any of the cases reviewed. REU stated that performance securities are not insisted upon to attract more bidders as local financial conditions involved high costs for these banking services. REU however assured that going forward, risk mitigation tools (performance bond, bank guarantee, etc.) will be strictly requested from the successful bidders for high value procurements to ensure protection of donors' funds.

(iv) Contract duration and contract breaks not given as per rules

155. FAO Corporate Framework on employment of Consultants and Professional Services Agreements (PSAs) prescribes that Consultants and Subscribers to PSAs may not work, nor may contracts be issued, for a period exceeding 11 months in any 12-month period. Contract breaks are mandatory, amounting to at least one month in any 12-month period, and at least 6 months after reaching 33 months in any 36-month period. Further, only candidates endorsed in Organizational Rosters of Consultants and PSAs may be selected for assignments. In addition, they must have undergone an advertised, competitive selection process.

156. A test check of 15 out of 92 Non-Staff Human Resources employed by FAO in its RAP and FAOR offices in Thailand indicated that all the personnel were re-hired over different periods of time. However, in none of these cases, the process of rehiring was documented. In two cases, the mandatory contract breaks (for PSAs and consultants) were not respected for hire periods stretching beyond 12 months. According to the corporate framework, only candidates endorsed in organizational rosters of consultants and PSAs may be selected for assignments. We observed that names of 56 PSA/consultants were not in the Organizational rosters in RAP and FAORs for Technical Specialists and Programme and Project Operation specialists.

157. As per extant Manual provisions, the duration of short-term assignments would be limited according to the needs of the hiring units and in any case should not exceed 100 calendar days in a calendar year. This stipulation was not adhered to in two cases in FADRK and one out of 13 randomly checked case in SAP.

Recommendation 16: We recommend that SAP Management should bring in systems to ensure that contracts are not renewed without mandatory contract breaks.

158. The Management accepted the recommendation.

(v) Vendor sourcing, registration and management

159. As per FAO Manual Section 502.3.2, CSLP (Procurement Services in headquarters) is responsible for ensuring that appropriate policies, procedures and guidelines are developed and communicated regarding how to use and maintain vendor records. The Global Vendor Management unit is responsible for maintaining the organization's vendor records in GRMS. As per FAO procurement manual, Vendors registered on GRMS shall have an active site location (city or place from where vendor operates). As per FAO Guidance note on Reporting Vendor Unsatisfactory Performance under MS 502, supplier performance report should be filled with risk level in GRMS vendor records. If it is believed that the problem in performance is likely to recur again then high risk level is assigned to the vendor, when evaluating future responses to tender, Buyers may consider a vendor's associated risk level and, in certain cases, use discretion to disqualify vendors that are high risk. Buyers may disqualify vendors based on these indicators when the Buyer believes that using a particular vendor would place the particular project at risk.

160. Hence the vendors who have been repeatedly issued Debit memos issued in connection with penalty for delay, should be assigned with high risk so that non-performance will not have an impact on timely and effective execution of projects by FAO. We observed that:

- 300 vendors registered at GRMS had no active site as of December 2021.
- GRMS data had 55 registered vendors with repeated non-performance (debit memo issued more than once) as of September 2021. The value of POs awarded to these vendors stood at USD 8.01 million.

161. Continuing with vendors with the above shortcomings may result in selection of sub optimal vendors for purchases/provision of services and may also result in incorrect information being available for management decision making.

Recommendation 17: We recommend that 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

162. While accepting the recommendation, Management stated that Procurement Division generally flags non-performance before a contract is issued to a vendor. It assured to undertake a review process and explore a more systematic approach `for dealing with non- performance of vendors.

1. Project Management

163. Project Management is one of the critical business processes of the FAO. The various stages of the project management cycle involves project identification, formulation, appraisal & approval, implementation & monitoring, evaluation and closure.

Delays in Project Closure

164. As per FAO Operational Guidelines for closure of projects, Operational closure is a process that starts when the implementation of the project's activities is completed. The Not to Exceed (NTE) date of a project is the point in time beyond which no new financial obligations/commitments should be made. It is recommended that, to the extent possible, contracts/agreements should be completed before NTE date to allow sufficient time for the finalization of reporting (as appropriate), to make final payments and take other administrative steps leading to project closure.

165. Delays in project closure, ranging from few months to several years, were observed during the period under audit review, operational closure was affected with delay (beyond three months of NTE). The details are mentioned below:

Table 7

Office	No. of projects	No. of projects closed with delay	Percentage
Regional Office for Asia and the Pacific (RAP)	38	27	71
Subregional Office for the Pacific Islands (SAP)	52	40	77
Regional Office for Europe and Central Asia (REU)	63	39	62
FAO Representation in Türkiye (FETUR)	12	4	33
FAO Representation in Georgia (FAOGE)	9	4	44

166. Although reasons for delays were at times attributed to external factors that were beyond the control of the Organization, there were instances where delays were on account of controllable factors like, delay in initiating the request for project closure by the Budget Holder, failure to pursue in cases of delay in initiating closure by Finance Division in headquarters, delays in closure of commitments and transfer of assets, delay in settlement of committed expenses, overspending on budget lines and spending on unbudgeted items that required post-factum approval of donors, delay in submission of terminal reports and their acceptance by donors.

167. In REU, six projects were operationally closed but as of January 2022, financial closure of these projects was pending for periods ranging from 9 to 689 days after their due dates of financial closures per their project document.

168. The offices assured to further strengthen the monitoring of the Operational and Financial Closures to ensure projects are closed within the foreseen deadlines. Delays in financial closure would defeat the purpose of financial closure of projects, which is that the Budget Holder should ensure that funds have been expended as per the project budget and all payments have been made and that there is no pending budget revision.

Recommendation 18: We recommend that controls measures be implemented to ensure that management actions for timely project closures are undertaken.

169. The Management accepted the recommendations.

Incorrect Project Status in Field Programme Management Information System (FPMIS)

170. 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 Technical Cooperation Programmes (TCPs) funded by the Regular Programme. It is important to ensure accuracy of information to allow Management to fully utilize its potential as an effective monitoring tool.

171. We noticed that 15 out of 61 projects shown in pipeline in FPMIS, were considered as not anymore relevant by the formulators for various reasons. Projects that were not approved for funding by donors or were not considered feasible were also not yet removed from the system in REU and FETUR. In REU, the status of 20 pipeline projects was not updated in the last 2 to 3 years.

172. The concerned country offices cited technical difficulties in deleting the projects from the database. REU while accepting the observation agreed to improve the process to keep the data on FPMIS current. FETUR informed that a monitoring procedure for updating project status on FPMIS is currently under development and would be put in place by 2022.

Recommendation 19: We recommend that status of projects in pipeline should be periodically reviewed and updated. Projects considered no longer relevant by formulators should be marked as cancelled in the system in a timely manner.

173. The Management accepted the recommendation.

2. Internal Control

174. Internal control includes a comprehensive set of policies, standards of conduct, behaviours, processes, and systems that have been put in place to achieve objectives efficiently and effectively. The purpose of reporting on the status of internal control in FAO is to increase transparency and trust of stakeholders and partners.

(i) Cash Management

175. The Finance Division (CSF) had recommended that at least once a month, towards the end of the month or when the level of the petty cash account reaches 20 percent of the established level, the Imprest Holder should request for replenishment of petty cash. We observed that requests for replenishment of petty cash were made when the cash level was less than 20 percent of the approved limit in almost all the offices audited. In some cases, replenishment requests were made when the petty cash balance was negative as in case of SAP, REU and FADRK, thereby exposing itself to the risk of cash not being readily available for payment of petty obligations or to the suppliers who do not accept cheque payments.

176. In FADRK payments to vendors/suppliers in 51 cases amounting to USD 73,026 remained outstanding for periods ranging from 1 to 16 months due to cash shortage. Payments remaining outstanding for extended periods of time pose a reputation risk for the Organization.

177. FADRK stated that although it is regularly monitoring the situation and engaged in communications with Finance Division at headquarters, the problem has remained unresolved. Cash shortage affects procurements made within the country. However, this does not affect procurement done through international tenders and payment can be settled.

(ii) Unmatched invoices

178. Goods or services are sometimes procured without processing a formal Purchase Order in the GRMS and the supplier issues the invoice when the goods are received or the services have been rendered. These are referred to as "Unmatched" invoices and would typically cover arrangements with outside suppliers or small expense reimbursements to staff members. Extant financial procedure prescribes that only when an expense is less than USD 1,000 or less than USD 500 for attractive items, can an unmatched invoice be used. Unmatched invoice is not applicable to recurring expenses over a calendar year, such as, contract for services which are liquidated throughout the year and a formal PO through GRMS should be used in all such cases.

179. We observed that Subregional Office for the Pacific Islands used unmatched invoices on 52 occasions between 2020 and 2021 for amounts exceeding USD 1, 000 with the highest unmatched procurement value being USD 44,423. Unmatched invoices were also being used for recurring expenses on services through-out the year (e.g. Security Services).

180. FAO replied that it has initiated work in 2021 with the support of Finance Division at headquarters CSF to reduce the use of unmatched invoices, with special attention to payment for security services.

(iii) Loss of Assets and Property

181. There were instances of theft/loss of FAO property in some offices which indicated that control procedures embedded for safeguarding FAO assets and property needed better compliance. In REU,

Budapest, we observed issues like non-reporting of theft/loss of assets, non-filing of police report of loss/theft by the asset custodian, and non-initiation of cost recovery by the asset responsible officer. Similarly, in FEKAZ police reports were not lodged for an asset that was lost at the beginning of 2018 while in transit to FAO headquarters. Procedure for write-off of the asset was initiated in November 2019, after almost 20 months.

182. In FARK, an official whose tenure ended on 03.10.2021 was recorded as custodian of 20 assets in the Physical Verification of Assets Report 2021 which was prepared based on physical verification on 05.11.2021.

183. In SAP, there were 385 instances of retirement of Fixed Assets during the period of Audit review (2015-2021). The Property Transfer Form/Asset Disposal Certification Forms were available in respect of only 66 assets, majority of which were transferred as scrap. Amount received as sale proceeds was recorded for only one asset. In the case of Transfer to non-government agencies, the name of the Agency to which the transfer was made was recorded for 166 out of 245 such transfers. Only four of these Property Transfer Forms in respect of 11 assets contained the receipt and signature of the recipients. In FAMON also, dates of transfer of assets and dates of receipt by the recipients were not mentioned in any of the Property Transfer Forms.

184. In case of property loaned to staff, Audit was not able to draw assurance on the existence and availability of all assets listed in the Assets Register of SAP in 21 property loan forms, out of 39 forms reviewed, period of custody of the loaned assets had already expired. There was no record of whether and when the loaned asset was returned. In some forms the period of custody was not mentioned. The Physical Verification of Assets Report of several offices had incomplete information viz., missing serial numbers, tag numbers, location, custodian details of assets, etc.

185. The Management accepted the recommendation.

(iv) Assets sold but not retired on time from the Asset Register

186. As per FAO Manual provisions, each year FAO is required to verify all non-expendable property at every location. Each regional and country office must verify that the assets listed in the Asset Register in GRMS exist physically at the respective location and, conversely, they must confirm that all of the assets found at a location are included in the Asset Register.

187. We observed that FAO retired 11 assets during 2021 and proceeds from the sale of assets recorded at zero (0) value. Management stated that 6 out of 11 assets were sold during 2018. We also observed that these assets which were sold during 2018, also continued to be reflected in the physical verification report of the years 2018, 2019 and 2020 and were removed from the asset register only in 2021.

188. In respect of two assets, Management stated that sale proceeds were not entered due to oversight. Assets were not retired from the asset register since there were delays in receiving information on sale of these assets from the field offices; in respect of three assets, bill of sale was not received from the field offices till date although these assets were sold in 2020.

Recommendation 20: We recommend:

- **FAO needs to strengthen its compliance with internal controls for an efficient management of petty cash and to safeguard its assets and property.**
- **FAO should bring in controls in GRMS to ensure that no ineligible unmatched procurements are allowed.**
- **FAO should develop modalities for better communication with field offices for ensuring timely retirement of sold assets from the asset register.**

189. The Management accepted the recommendations.

D. DISCLOSURES BY MANAGEMENT

190. The terms of reference on External Audit require the disclosures of important information. In this connection, FAO Management provided disclosures on ex-gratia payments and cases of fraud and presumptive fraud, are placed under Annexure-3.

E. ACKNOWLEDGEMENT

191. We wish to express our appreciation to the Director-General, Senior Management and staff for their cooperation in our audit engagement.

Sd/

21 October 2022

Girish Chandra Murmu

Comptroller and Auditor General of India

Annexure 1: Changes made on the recommendations of audit

(i) **Revenue recognition from voluntary contributions:** FAO has been following the practice of recognizing revenue from voluntary contributions equivalent to the invoiced value of such contributions during a financial year regardless of total contributions committed in the respective donor agreement and the date of signing of such agreement. While this practice had been followed consistently since the implementation of IPSAS by FAO 2014, practice was inconsistent with the accounting policy disclosed in the financial statements which referred to recognizing revenue from voluntary contributions and other transfers that are supported by enforceable agreements at the time the agreement becomes binding and when control over the underlying asset is obtained, unless the agreement establishes a condition on the transferred asset that requires recognition of a liability.

(ii) At the instance of Audit, Management has reviewed its revenue recognition policies and practices in conjunction with IPSAS 23 and revised the accounting treatment to recognize revenue consistent with the contractual amount upon signature of the agreement by both parties. The aforesaid change in accounting treatment resulted in an increase of revenue in 2021 by USD 277.4 million and increase in retained earnings by USD 1,476.1 million. Voluntary Contribution agreements signed prior to 31 December 2019, accumulated to USD 1,522.5 million as on 31 December 2020, indicating increase in revenue recognized in 2020 of USD 46.4 million.

(iii) On being further pointed out during verification of the revised AFSs 2021, FAO Management bifurcated the Receivables from non-exchange transactions of USD 2,047.4 million in Current (USD 1 135.6 million) and Non-current (USD 911.8 million) in AFSs 2021 with corresponding bifurcation of the same in AFSs 2020 (restated) and resultant changes in other statements/notes.

(iv) **Recognition of in-kind contributions:** Management has made additional disclosure indicating the point of time for recognition of revenue from in-kind contributions in terms of IPSAS-23. The existing note has been expanded to state that goods that are donated to the Organization are recognized as revenue, with a corresponding increase in the appropriate asset, at the earlier of when such donations are received by the Organization or when an unconditional binding arrangement to receive the goods has been entered into and the fair value of the goods can be reliably determined.

(v) **Voluntary contributions received in advance:** Additional Note disclosures on the accounting policy for recognition of voluntary contribution received in advance have been included in the Financial Statements to state that payments received in advance includes amounts received from donors in advance of concluding a specific project funding agreement for use of the funds, interest amounts earned during the life of a project on project funds that are held on behalf of the donor until they are repaid, and balances on financially closed projects that have not yet been repaid to the donor.

(vi) **Receivables from exchange transactions:** Amount due from UN and other organizations as at 31 December 2021 was revised upward by USD 180 000 which was presented incorrectly on account of a calculation error. Consequently, allowance for doubtful accounts, reversal of allowance and ageing analysis of receivables were also revised. An additional disclosure to state that Receivables from exchange transactions are provided for after being outstanding for more than one year from the date of invoice was included.

(vii) **Revisions to accounting policy for property, plant and equipment:** (i) Freight and installation charges were not included for arriving at the threshold limit for capitalization of assets in contravention of IPSAS 17. Management agreed to revise the Organization's policy document to indicate that subsequent costs viz. freight and installation etc. are included in the value of assets for arriving at the revised threshold limit for each category of assets. (ii) the Policy document on PPE provided a revised useful life of 15 years for charging depreciation on leasehold improvements, without considering the term of such leasehold improvements. The accounting policy was subsequently revised to state that the basis for calculation of depreciation for Leasehold Improvements is shorter of lease term or useful life.

(viii) **Disclosure of impact of the revised threshold limit:** Management has revised the threshold limit of asset capitalization from USD 1 500 USD to USD 5 000 USD for purchased assets, from USD 50 000 to USD 100 000 for self-constructed assets, and from USD 100 000 to USD 200 000 for individual internally developed intangible assets, prospectively as of 1 January 2021. The impact of change in threshold limit for each category of assets amounting to USD 1 649 thousand was disclosed in the AFSs 2021 at the instance of Audit.

(ix) **Disclosure of accounting policy and amount of project support cost recovery:** FAO has recognized an amount of USD 116.3 million as the project support cost recovery (PSCR) during the year 2021 which constitutes 7.5 percent of the total voluntary contributions of USD 1 540.9 million. However, PSCR amount and the accounting policy of PSCR was not stated in the Notes to the AFSs 2021. At the instance of audit, Management indicated in the Note to the AFSs 2021 the value of the PSCR recognized of USD 116.3 million with the offsetting associated expenses of USD 116.5 million during 2021, and also included an additional disclosure to state that cost recovery is used to allocate centrally managed expenses incurred in support of its activities and programmes, including indirect costs which cannot be unequivocally traced to those activities and programmes.

(x) **Allowance for doubtful accounts:** Increase in Allowance for doubtful accounts of assessed contributions was understated by USD 3.58 million, and a corresponding understatement in the decrease in provision were rectified by Management. Also, additional notes, have been included to state that FAO has provided for assessed contributions due for less than two years for those Member Nations that have not

made any payment in the last 25 years, and to provide information on the provision for voluntary contributions.

(xi) **Investment Accounting:** Discrepancies in unrealized gains/(losses) on Available-for-sale investments recognized in equity, and in unrealized FX gains/(losses) during the year were pointed out during Audit. Management restated the financial statements to correctly reflect the value of realized versus unrealized gains on derivative financial instruments and revised the associated note disclosures accordingly.

(xii) **Changes in Cash Flow Statement:** Out of 22 items (excluding surplus/deficit) of Cash Flow Statement (CFS) for the year ended 31 December 2021, only seven items were cross-referenced to Notes to the AFSs in violation of IPSAS-1, and the amounts taken in CFS were not reconciled with the source figures. On being pointed out, the CFS has been modified with each item cross-referenced to Notes including required additional disclosures to make the CFS more understandable.

(xiii) **Discrepancies in Notes to the AFSs 2021:** Discrepancies in various notes and totalling/rounding off errors pointed out during audit have been modified with additional disclosures, wherever required in the AFSs 2021.

(xiv) **Capitalization of Asset Under Construction which were completed up to 31 December 2021:** Management has made revisions in Financial Statements 2021 for capitalization of three assets (along with depreciation adjustments) which were above the threshold value for capitalization with total value of USD 974 380 and expensed 10 assets which were below threshold value with total value of USD 555 289.

(xv) **Accounting Treatment of Unconditional Transfer:**

As per FAO accounting policy, for cash transfers to beneficiaries that do not require the provision of service, cash transfers should be recognized as expense upon signature of the agreement with the Service Providers, which would generally coincide with the timing of the cash payment. We noticed one payment of USD 156 000 which was considered as Non-current Prepayments instead of Expenditure. Similarly, three account payables with total value of USD 242 994 were created during 2021 which were to be effected during 2022. Based on our recommendation, Management has made changes in Financial Statements for the year 2021 and expensed this Un-conditional Transfer and reverse payables.

(xvi) **Accounting of prepayments for multi-year works/services:**

We noticed six transactions in respect of two Purchase Orders (POs) where FAO paid for provision of service for more than one year and charged these as expenditure in Financial Statements. These advances paid for services after 31 December 2021 should have been treated as prepayments. Management has made revisions based on our recommendation for correction in respect of these two POs and also eight POs identified by themselves and booked total amount of USD 1 ,854, 934 under prepayments for the amount paid for provision of services to FAO after 31 Dec 2021. However, while reviewing the revised financial statements for the year 2021 where errors occurred

due to double entries in eight cases and incorrect bifurcation of advance in the months of service before and after December 2021 in one case, the impact due to these errors was identified as USD 345 200. Management has also booked all such cases in current assets whereas there are six cases where amount paid for services after 31 December 2022 which should have been classified as non-current. Management has also calculated impact due to this error as USD 449 140.50 which should have been booked in non-current prepayments. Based on low value and materiality of revisions, Management has not carried out any further corrections for these errors in Revised Financial Statements for the year 2021.

(xvii) **Classification of locally recruited consultants as internationally recruited consultants:**

During Audit, it was noticed 17 cases of consultants where permanent residence place and duty station both were same and the consultants were categorized as internationally recruited. Due to this error in categorization, expenditure was booked in incorrect GL. Management has revised the classification based on Audit Recommendation and changed the booking of expenditure of USD 464 548.34 in note no. 20.1 of financial statements for the year 2021 from Internationally recruited consultant to locally recruited consultant.

(xviii) **Charging of expenditure for construction of asset (non-expendable) in expenses account:**

During Audit we found a case where expenditure for construction (above threshold value of USD 100 000) was booked as repair and maintenance expenses instead of Construction In Progress (CIP) asset. Management has made revisions in financial statement for the year 2021 and corrected the accounting of expenditure of USD 498 717.77 on construction work as CIP instead of expenditure.

(xix) **Accounting For leasehold improvements:** During audit we noticed an asset which was treated as donated operating lease at the time of transfer to FAO. However, renovation work valuing USD 103 457 on the same asset was treated as building instead of leasehold improvements. FAO has revised the classification of asset as Leasehold improvement along with adjustment in depreciation based on audit recommendation.

(xx) **Capitalization of project asset returned to FAO:**

During audit, we noticed one asset with value of USD 107 023 which was purchased for projects but returned back to FAO with clearance from donor. Management has made revision entries for capitalization of this asset as donated asset based on audit recommendation.

Annexure 2: Review of the CPF 2021-25 and Workplan 2022-23 of Armenia

CPF/Work Plan			**Strategic Results Framework**
Output	SDG targets	PPA linked with SDG targets	PPAs linked to the set of SDG targets outlined in CPF/WP
1.1	1.2, 1.3 2.3, 2.4, 8.3, 9.3	BL.2	BL.5, BL.4, BN.1, BN.2, BP.1, BP.4, BL.1, BL.3, BE.1,, BL.2
1.2	1.2, 2.3, 2.4, 4.4, 8.3, 13.1	BP.1	BL.5, BP.1, BP.4, BL.1, BL.3, BE.1, BL.4, BL.2
2.1	4.4, 8.3, 9.3, 9.4, 13.1, 15.3	BE.3	BL.2, BP.4, BE.1, BE.3
2.2	2.3, 2.4, 8.3, 9.3, 13.1	BE.1	BP.1, BP.4, BL.1, BL.3, BE.1, BL.4, BL.2

Annexure 3: Disclosures by FAO Management on ex-gratia payments and cases of fraud and presumptive fraud

I. Ex-gratia payments

Management disclosed that ex-gratia payments made in financial year 2021 USD 90,014.88. The amount was paid as compensation to the beneficiaries of staff of FAO during the year 2021.

II. Cases of fraud and presumptive fraud

Pursuant to paragraph 6 (c) (i) of the Additional Terms of Reference Governing External Audit (Annex 1 to the Financial Regulations), FAO Management reported following summary of the cases of fraud, presumptive fraud or theft known to the Organization:

A. Cases under review in 2020

Case 1. (Previously reported as Case 3 in the 2021) The Office of the Inspector General (OIG) conducted an investigation and found that a third party monitor engaged by an FAO Country Office submitted fraudulent reports indicating the proper implementation of a field project. The matter was submitted to the Vendor Sanction Committee (VSC). Procurement Service (CSLP) has completed the sanctions procedure process. There is, however, the possibility that the vendor has not received the Notice of Sanctions Proceedings communication, thus CSLP will contact the vendor again to make sure the final determination is accepted.

Case 2. (Previously reported as Case 4 in the 2021) OIG conducted an investigation and found that a supplier provided FAO with falsified delivery notes bearing the signature of FAO personnel to demonstrate that goods were delivered, when in fact they were not. The value of the goods allegedly not delivered is approximately USD 45 000. The supplier did not receive any payment related to the falsified delivery note. The matter was submitted to the VSC. CSLP has completed the sanctions procedure process. There is, however, the possibility that the vendor has not received the Notice of Sanctions Proceedings communication, thus CSLP will contact the vendor again to make sure the final determination is accepted.

Case 3. (Previously reported as Case 8 in the 2021) Following an investigation, OIG concluded that an FAO staff member had an undisclosed conflict of interest arising from his failure to report his personal relationship with a vendor of the Organization in connection with some Letter of Agreements (LoAs). OIG considered this was aggravated in light of the staff member's seniority with the Organization, prominent role in relation to relevant LoAs, and the fact that he had been put on notice of the issue in 2015 and nevertheless continued to disregard organizational requirements relating to conflicts of interest. While the evidence raises concerns that the staff member's neutrality in the discharge of his duties and responsibilities could have been compromised, there is insufficient evidence to substantiate the alleged collusive practices and/or

favoritism. The disciplinary process has been completed. The matter as related to the vendor was also submitted to the VSC and the measure of debarment for three (3) years was imposed. The case is closed.

Case 4. (Previously reported as Case 9 in the 2021) OIG conducted an investigation and found that a supplier submitted fraudulent documents and concealed its associations with other companies bidding on the same six FAO tenders for the provision of agricultural inputs. The matter was submitted to the VSC. CSLP has completed the sanctions procedure process. There is, however, the possibility that the vendor has not received the Notice of Sanctions Proceedings communication, thus CSLP will contact the vendor again to make sure the final determination is accepted.

Case 5. (Previously reported as Case 10 in the 2021) OIG conducted an investigation and found that a supplier submitted fraudulent documents and concealed its associations with other companies bidding on the same ten FAO tenders for the provision of seeds. The matter was submitted to the VSC. CSLP has completed the sanctions procedure process. There is, however, the possibility that the vendor has not received the Notice of Sanctions Proceedings communication, thus CSLP will contact the vendor again to make sure the final determination is accepted.

Case 6. (Previously reported as Case 11 in the 2021) OIG conducted an investigation and found that a supplier submitted fraudulent documents and concealed its associations with other companies bidding on an FAO tender for the provision of seeds. The matter was submitted to the VSC. CSLP has completed the sanctions procedure process. There is, however, the possibility that the vendor has not received the Notice of Sanctions Proceedings communication, and CSLP will contact the vendor again to make sure the final determination is accepted.

B. Cases under review in 2021 and early 2022

Case 7. (Previously reported as Case 12 in the 2021) OIG conducted an investigation and found that two vendors knowingly concealed their affiliation and colluded in relation to an FAO tender. The matter was submitted to the VSC and the measure of debarment for one year was imposed to each vendor. The case is closed.

Case 8. (Previously reported as Case 13 in the 2021) OIG conducted an investigation and found that employees of an inspection company contracted by FAO requested payment from an FAO supplier in connection with the inspection of goods procured by FAO, and not having received the payment requested from the vendor, intentionally gathered samples designed to result in unsatisfactory test results as part of the inspection in question. The matter was submitted to the VSC and the measure of debarment for three years with conditional release was imposed. The case is closed.

Case 9. (Previously reported as Case 14 in the 2021) OIG conducted an investigation and found that an FAO vendor agreed with another vendor to prepare bids in responses to two Invitations to

Bid (ITBs) issued by FAO in such a way as to split the award between the two companies in the event that they should win the tender. The matter was submitted to the VSC and the measure of debarment for two years was imposed. The case is closed.

Case 10. (Previously reported as Case 15 in the 2021) OIG conducted an investigation and found that an FAO vendor agreed with another vendor to prepare bids in responses to two ITBs issued by FAO in such a way as to split the award between the two companies in the event that they should win the tender. The matter was submitted to the VSC and the measure of debarment for three years was imposed. The case is closed.

Case 11. (Previously reported as Case 17 in the 2021) OIG conducted an investigation into allegations that an FAO staff member with managerial responsibilities knowingly or recklessly authorized a USD 37 128 to cater for travel expenses and honorarium in relation to work purportedly undertaken by a former consultant who had no employment contract with the Organization. OIG found that the staff member's conduct constituted gross negligence. The staff member separated from the Organization and a note was placed in the personnel file. The case is closed.

Case 12. (Previously reported as Case 19 in the 2021) OIG conducted an investigation into allegations that an FAO vendor colluded with another vendor (see case 13 below) in the submission of its bids for the procurement of agricultural inputs. Neither vendor was awarded the contract in question. OIG completed the investigation and concluded that there was insufficient evidence to conclude that the companies engaged in sanctionable actions. The evidence confirmed that both companies communicated with each other in the preparation of their bids, but did not indicate that such communications were designed to achieve an improper purpose. The case is closed.

Case 13. (Previously reported as Case 20 in the 2021) OIG conducted an investigation into allegations that an FAO vendor colluded with another vendor (see case 12 above) in the submission of its bids for the procurement of agricultural inputs. Neither vendor was awarded the contract in question. OIG completed the investigation and concluded that there was insufficient evidence to conclude that the companies engaged in sanctionable actions. The evidence confirmed that both companies communicated with each other in the preparation of their bids but did not indicate that such communications were designed to achieve an improper purpose. The case is closed.

Case 14. (Previously reported as Case 21 in the 2021) OIG conducted an investigation into allegations that a staff member colluded with a former staff member to circumvent applicable HR and procurement rules in the award of a LoA to an NGO employing the former staff member. OIG completed the investigation and substantiated the allegations. The staff member resigned from the Organization. OIG identified insufficient evidence to conclude that the NGO had engaged in sanctionable conduct.

Case 15. (Previously reported as Case 22 in the 2021) OIG conducted an investigation into allegations that an FAO consultant knowingly submitted an altered medical certificate in order to

facilitate the issuance of her employment contract. OIG concluded that the consultant knowingly altered the medical certificate to misrepresent its issuance date and submitted it to FAO to facilitate the issuance of her consultancy contract. The consultant is no longer working in the Organization and a note was placed in the personnel file. The case is closed.

Case 16. (Previously reported as Case 23 in the 2021) OIG conducted an investigation into allegations that two vendors colluded in the submission of their bids for construction works at a decentralized office. Neither vendor was awarded the contract in question. The matter was submitted to the VSC and is pending a decision on whether to initiate sanctions proceedings.

Case 17. (Previously reported as Case 24 in the 2021) OIG conducted an investigation into allegations that a member of FAO personnel with managerial responsibilities instructed personnel under their supervision to create fake documentation, or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights. The disciplinary proceedings are ongoing.

Case 18. (Previously reported as Case 25 in the 2021) OIG conducted an investigation into allegations that multiple members of FAO personnel colluded with a vendor for the award of a contract to supply goods to be distributed to beneficiaries and then colluded with unknown individuals to divert those goods from their designated purpose. OIG concluded that the evidence was insufficient to substantiate the allegations against the individuals and vendors in question. In the process OIG identified various gaps in internal controls that were referred to the country office in question for action as appropriate. The matter is closed.

Case 19. (Previously reported as Case 26 in the 2021) OIG conducted an investigation into allegations that an implementing partner created fraudulent documentation to demonstrate the proper distribution of goods to beneficiaries as part of an FAO funded project. The matter was submitted to the VSC, which issued a Notice of Sanctions Proceedings in late 2021. The matter is pending completion of the sanctions proceeding.

Case 20. (Previously reported as Case 27 in the 2021 letter) OIG conducted an investigation into allegations that a member of FAO personnel with managerial responsibilities knew that personnel under their supervision had been instructed to create fake documentation, and through their inaction encouraged or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights. The disciplinary proceedings are ongoing.

Case 21. (Previously reported as Case 28 in the 2021 letter) OIG conducted an investigation into allegations that a member of FAO personnel with managerial responsibilities knew that personnel under their supervision had been instructed to create fake documentation, and through their inaction encouraged or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights. The disciplinary proceedings are ongoing.

Case 22. OIG conducted an investigation into allegations that a former staff member submitted false Travel Declarations together with forged documentation in relation to requests for Home Leave which led to payment to him of the sum of USD 10 894.27. A note was placed in the staff member's personnel file, and recovery was made from the staff member's terminal emoluments. The matter is closed.

C. Ongoing matters of presumptive fraud as of April 2022

Case 23. OIG is investigating allegations that an FAO vendor colluded with another FAO vendor in the preparation of its bids for the supply of farm equipment being procured by a country office (see case 24 below). OIG requested and the VSC issued a Temporary Suspension to both companies. The investigation is ongoing.

Case 24. OIG is investigating allegations that an FAO vendor colluded with another FAO vendor in the preparation of its bid for the supply of agricultural inputs (see case 25 below) and that the same vendor submitted fraudulent documentation in connection with a different bid for farm equipment (see case 23 above and case 25 below). OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 25. OIG is investigating allegations that an FAO vendor colluded with another vendor (see case 24 above) in the preparation of its bid for the supply of agricultural inputs. OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 26. OIG is investigating allegations that an FAO vendor submitted fraudulent documentation as part of its bid submission in response to two different procurement actions and that the same vendor colluded with another FAO vendor in the submission of its bid in relation to one of the above-mentioned procurement actions (see case 33 below). OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 27. OIG is investigating allegations that an FAO vendor submitted fraudulent documentation as part of its bid for the supply of agricultural inputs. OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 28. OIG is investigating allegations that a member of FAO personnel colluded with multiple vendors in the selection, award and issuance of contracts for FAO promotional materials (see cases 29-36-37-38 below), and with whom the FAO personnel had close family relationships. This investigation is ongoing.

Case 29. OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 28 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 30. OIG is investigating allegations that an FAO vendor colluded with another vendor (see case 31 below) in the preparation of its bid for the construction of multipurpose centres. The investigation is ongoing.

Case 31. OIG is investigating allegations that an FAO vendor colluded with another vendor (see case 30 above) in the preparation of its bid for the construction of multipurpose centres. The investigation is ongoing.

Case 32. OIG is investigating allegations that a staff member colluded with a vendor for the award of a contract for infrastructure works at an FAO Representation. The investigation is ongoing.

Case 33. OIG is investigating allegations that an FAO vendor colluded with another FAO vendor (see case 26 above) in the preparation of its bid for the supply of agricultural inputs. OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 34. OIG is investigating allegations that a staff member submitted a false declaration in relation to rental subsidy payments. The matter is ongoing.

Case 35. OIG is investigating allegations that a staff member made a request under false pretences for the issuance of a Note Verbale to allow them to travel to visit family members in another country, and that both the request and the resulting Note Verbale contained false information. OIG is also investigating allegations that the same staff member falsely represented that their family had transferred to the duty station in order to receive a settling-in grant and related entitlements for their transfer.

Case 36. OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 28 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 37. OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 28 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 38. OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 28 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

List of abbreviations

AFS	Annual Financial Statements
APP	Advance Purchase Policy
BH	Budget Holder
CFI	FAO Investment Centre
CIP	Construction In Progress
CPF	Country Programming Framework
CSF	Finance Division
EBRD	European Bank for Reconstruction and Development
ECTAD	Emergency Centre for Transboundary Animal Diseases
FAO	Food and Agriculture Organization
FADRK	FAO Representation in the Democratic People's Republic of Korea
FEGEO	FAO Representation in Georgia
FAMON	FAO Representation in Mongolia
FAORs	FAO Representations
FETUR	FAO Representation in the Republic of Türkiye
FPMIS	Field Programme Management Information System
FSG	Financial Statement Generator
GEF	Global Environment Facility
GIMS	Global Inventory Management Solution
GRMS	Global Resource Management System
IAASB	International Auditing and Assurance Standards Board
ICQs	Internal Control Questionnaire
IFAD	International Fund for Agricultural Development

IFIs	International Financial Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ITB	Invitation to Bid
LD	Liquidated Damages
LOAs	Letter of Agreements
LPC	Local Procurement Committee
MIS	Management Information System
NSHR	Non-Staff Human Resources
NTE	Not to Exceed
OED	Office of Evaluation
OIG	Office of the Inspector General
OSP	Office of Strategy, Programme and Budget
PEMS	Performance Evaluation and Management System
PIRES	Programme Planning, Implementation Reporting and Evaluation Support System
POs	Purchase Orders
PPAs	Programme Priority Areas
PPE	Property Plant and Equipment
PR	Purchase Requisitions
PROMYS	Project Lifecycle Management System
PSCR	Project Support Cost Recovery
RAP	Regional Office for Asia and the Pacific (at Bangkok)
REU	Regional Office for Europe and Central Asia (at Budapest)
SAP	Subregional Office for the Pacific Islands (at Samoa)
SDG	Sustainable Development Goals

SFDA	Special Fund for Development Finance Assistance
UEL	Useful Economic Life
UNDP	United Nations Development Programme
UNDS	United Nations Development System
UNGM	United Nations Global Marketplace
UNSDCF	United Nations Sustainable Development Cooperation Framework
UNSPSC	United Nations Standard Products and Services Code
VAT	Value Added Tax