CONFERENCE

Forty-fourth Session

Rome, 28 June - 4 July 2025

Audited Accounts – FAO 2022
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 of the United Nations (FAO) by making constructive recommendations.

For further information, please contact:

Mr. Sushil Kumar Thakur
Director External Audit - FAO
Office of the CAG of India
E-mail:
SushilKumar.Thakur@fao.org
## INDEX

<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Overall Results of Audit</td>
<td>3</td>
</tr>
<tr>
<td>Key Audit Findings</td>
<td>4</td>
</tr>
<tr>
<td>Audit Recommendations</td>
<td>7</td>
</tr>
<tr>
<td>Mandate, Scope and Methodology</td>
<td>11</td>
</tr>
<tr>
<td>Audit Findings and Recommendations</td>
<td>12</td>
</tr>
<tr>
<td>Follow-up of Previous External Audit Recommendations</td>
<td>12</td>
</tr>
<tr>
<td>A  Financial Audit</td>
<td>13</td>
</tr>
<tr>
<td>B  Management Matters</td>
<td>20</td>
</tr>
<tr>
<td>Performance Audit of Office of Emergencies and Resilience (OER)</td>
<td>20</td>
</tr>
<tr>
<td>Information Technology Audit of Global Resource Management System (GRMS)</td>
<td>26</td>
</tr>
<tr>
<td>C  Compliance Audit Findings</td>
<td>35</td>
</tr>
<tr>
<td>D  Disclosures by Management</td>
<td>39</td>
</tr>
<tr>
<td>E  Acknowledgement</td>
<td>39</td>
</tr>
<tr>
<td>Annexures</td>
<td>40-48</td>
</tr>
</tbody>
</table>
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 2022, 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 audits were conducted at FAO headquarters and at the Regional Office for Latin America and the Caribbean (RLC), the Subregional Office for North Africa (Tunisia) and six FAO Representations (FAORs) in Colombia, Ethiopia, Lebanon, Mexico, the Sudan and the Bolivarian Republic of Venezuela. These audits were conducted in 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 the Office of Emergencies and Resilience (OER) and on the Global Resource Management System (GRMS). The main objective of the audits was to strengthen an economic, 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 31 recommendations arising from observations of audit. The recommendations have been categorized as Fundamental, Significant and Merits 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) and the International Public Sector Accounting Standards (IPSAS).

7. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of 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 FAO.

8. We identified important issues that need to be addressed by Management to further improve recording and reporting of financial management.

¹ Fundamentals: 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.
Key Audit Findings

Financial Audit

Non-recognition of the fair value of revenue from voluntary contributions

9. FAO from Financial Year (FY) 2021 has been recognizing up front, as revenue, contributions pledged in binding multi-year agreements. However, such contributions are being accounted for at their nominal value. These contributions have maturities extending for as long as 9 years and, out of net receivables of USD 2.39 billion as of the end of 2022, a significant proportion (USD 1.07 billion, accounting for 46 percent) will be due only after FY 2023. Considering the amount of voluntary contributions receivable and their long horizons, their depiction at nominal value is not consistent with fair value considerations.

Non-recognition of the fair value of revenue from assessed contributions

10. An amount of USD 1.3 million has been shown as non-current assessed contributions receivable from Member Nations in the Note to the FAO’s Financial Statements 2022. The amount was recognized as revenue, in view of Conference resolutions approving the instalment plans to liquidate the arrears of contributions in respect of two member countries (Resolution 2/21 and 2/17) over a period of 20 years and 10 years, respectively. Considering the amount of the assessed contributions receivable in future years, we consider that their depiction at nominal value is not consistent with fair value considerations.

Non-creation of liability in respect of Conditional Voluntary contribution

11. FAO has considered all the agreements (numbering 2082) entered with donors as unconditional and recognized revenue up front. Out of 2082 agreements, 245 were related to the agreements entered with the European Union and European Commission (EC) under the Financial and Administrative Framework Agreement (FAFA) and conditions were attached to the agreements, which give rise to present obligations attached to the asset. IPSAS 23 requires that the inflow of resources from a non-exchange transaction recognized as an asset must be recognized as revenue only to the extent that stipulations on a transferred asset do not give rise to a present obligation, i.e. there are no conditions attached to the asset.

Application of incorrect exchange rate

12. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date when the item was recognized. As such, Property, Plant and Equipment (PP&E) items purchased in foreign currency should be taken on the IPSAS ledger at the exchange rate applicable on the date of placing the asset in service. However, the exchange rate on the date of recognizing such assets was not applied.

Performance Audit of Office of Emergencies and Resilience (OER)

Emergency Preparedness of Country Offices

13. OER does not assess the preparedness of all Country Offices regarding their vulnerability to potential disasters and the preparedness of Country Offices to address these emergencies/situations. Out of the 127 Country Annual Reports (CARs) submitted for the year 2021, it was observed that only 25 countries (20 percent) assessed themselves to be well prepared to respond to emergencies. Ninety (90) countries (71 percent) were moderately prepared and had not reached the desired level of preparedness. Twelve (12) countries (9 percent) required urgent support to improve the state of
emergency response preparedness. Of the latter, in one member country Level 2 response has been triggered and three other member countries have their population classified under the Integrated Food Security Phase Classification (IPC) phase 2 and above.

Monitoring use of MEAL guidance

14. The Monitoring, Evaluation, Accountability and Learning (MEAL) framework was established to generate quality and timely data to foster understanding of vulnerable populations’ livelihood, food and nutrition security and resilience needs. It emphasizes, inter alia, the linkages between data, learning and systematic knowledge management (KM). The status of MEAL capacities (in terms of Human Resources and Budget) and use of standardized templates/products for MEAL activities (studies, surveys, workshops etc.) in Country Offices is not tracked by OER.

Unspent balances in financially closed emergency projects

15. Financial closure marks the date after which no further transaction will be permitted on that project account. Sixty-five Emergency Projects, which were financially closed during January 2020 to December 2022, had unspent balances amounting to USD 4.97 million in their financial statements. Out of these, unspent balances were lying in 53 emergency projects for a period ranging between 1 to 6 months in 27 projects, between 6 months to 1 year in 14 projects and for more than 1 year in 12 projects, even after the projects were financially closed.

Delay in approval/non-approval of Cash transfer modality of the projects

16. Cash transfers are assistance in the form of money provided to the affected population. FAO uses cash-based transfers for a broad range of complementary purposes: to provide immediate relief to farmers, strengthen livelihood resilience to future shocks etc. Sample test check of clearances in respect of 25 projects, revealed there were delays in giving clearance in respect of 16 projects. The delay in respect of 9 projects were less than 10 days, while in 7 projects it ranged between 39 to 205 days.

Monitoring of emergency projects with cash modality

17. FAO policy states that the Budget Holder (BH) is responsible for delivery of Cash transfers to beneficiaries. These include identifying beneficiaries, approving beneficiary lists, managing data, reconciling and making payments. The Budget Holder responsibilities had been delegated by OER to FAO Representatives at country level, regarding country specific components including cash transfers and other activities and was only available at country level, and not at the Budget Holder level, though FAO policy states that the delegating budget holder shall retain overall accountability.

Peer reviews under Emergency Activation and response protocol

18. For monitoring and evaluation and deriving assurance on Level 3 emergency responses, defined under the emergency response accountabilities and responsibilities for activation, implementation and review process, the Director, OER is required to initiate and coordinate operational peer reviews within three to six months into a Level 3 Emergency Response. Thirteen countries have ongoing Level 3/protracted emergency responses that were activated or converted into protracted responses between 2014 and 2022. However, operational peer reviews have not been initiated/planned for any of these responses.
Information Technology Audit of Global Resource Management System

IT Governance

19. The responsibility for IT Initiatives, over a period of time, has spread across multiple units and persons, which has led to diffusion of responsibility. Due to weakness in IT Governance, many of the IT initiatives were led by the Shared Service Centre, including the critical project of Segregation of Duties and the envisioned systems like PROMYS could not be operationalized.

Non-implementation of Segregation of duties with GRMS

20. Segregation of Duties (SoD) is an important internal control mechanism, which needs to be properly implemented in any organization. Many users were found with large numbers of responsibilities, with 765 users having more than 10 different responsibilities during the period covered from 1 November 2021 to 30 September 2022.

Conduct of Disaster Recovery Test as per Service Delivery Agreement (SDA) of UNICC

21. One partial DR test was conducted in 2017 and 2019, against the required two DR tests annually, during the period between January 2016 and October 2020. The DR test revealed there were infrastructure differences between DR and PROD (production) servers as the capacity of the DR server was below that of the PROD Server, which in turn affected performance of the DR server.

Non-generation of IPSAS Compliant Financial Statement using GRMS

22. Financial Statement generation still requires extensive manual intervention. The Trial Balance is generated from GRMS as a report in the form of a plain-text file, which is then imported into MS Excel with considerable effort. The Trial Balance data then undergoes significant rearrangement and grouping within MS Excel, which calls for application of both accounting and financial expertise, as well as outlay of time and effort on the part of the Finance team at headquarters before the core IPSAS compliant statements are prepared.

Non-availability of Procurement related documents in GRMS

23. Terms of reference documents in 69 percent of Competitive Award cases, 49 percent of Direct Purchase cases, and 58 percent of Exceptional Award cases were not available in GRMS. Technical approval documents were not uploaded in GRMS in 66 percent of Competitive Award cases, 67 percent of Direct Purchase cases, and 53 percent of Exceptional Award cases. An Evaluation sheet was not found in 45 percent of Competitive Award cases and 40 percent of Exceptional Award cases. Justification document was not uploaded in GRMS in 71 percent of Direct Purchase cases.

Compliance Audit

Gender Parity

24. FAO’s Strategic plan on Gender states that Centres, divisions and offices (decentralized and at headquarters) should carry out a gender stocktaking exercise every four years to assess the extent to which gender is integrated in their work. They are also required to develop a follow-up plan of action to address the identified gaps, set priorities and allocate resources for gender mainstreaming at divisional and office level. This was not found done in Representations in Tunisia, Colombia, Lebanon, Ethiopia and the Sudan.
Instances of Direct Procurement

25. FAO had procured 21 percent of goods through Exceptional Award and 15 percent through Direct Procurement. The complete details of the procurement were not available in GRMS. Further, FAO policy does not have separate delegated authority procurement limit for Direct Procurement.

Audit Recommendations

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

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial Audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>FAO to recognize fair value of revenue from voluntary contributions and include a corresponding disclosure in the notes to the financial statements.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>2.</td>
<td>FAO Management to recognize fair value of revenue from assessed contributions due in future years and disclose its policy of individual basis adjustments to Provisions relating to Voluntary Contributions in the notes to the financial statements.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>3.</td>
<td>FAO to examine the voluntary contribution agreements, including the EU FAFA agreements, which impose performance obligations on the recipient and meet the criteria for recognizing the contributions under these agreements as conditional and account for as per its stated policy.</td>
<td>Significant</td>
<td>2023</td>
</tr>
<tr>
<td>4.</td>
<td>FAO to take measures to recognize its assets from the date of them being placed in service.</td>
<td>Significant</td>
<td>2023</td>
</tr>
<tr>
<td>5.</td>
<td>Management to indicate in their accounting policy, the criteria for valuation of doubtful VAT receivables after assessing the general trend of reimbursement of VAT and to create appropriate Provisions for doubtful VAT receivables in the Financial statements.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td></td>
<td>Performance Audit of Office of Emergencies and Resilience (OER)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>OER to consider making use of Country Crisis Risk Profile and Emergency Response Preparedness sections of the CAR to regularly assess the emergency preparedness status of the Country Offices with a view to taking informed decisions and provide proactive support to Country Offices that assess themselves as inadequately prepared to address disaster risk.</td>
<td>Merits attention</td>
<td>2024</td>
</tr>
<tr>
<td>7.</td>
<td>OER to actively track the status of MEAL capacities in terms of Human Resources and availability of Budget for these activities in Country Offices through the Country Annual Reports. Use of MEAL plans and outcomes should be utilized to monitor project effectiveness and to build a repository of evidence to inform decision making regarding effective programming.</td>
<td>Significant</td>
<td>2024</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>8.</td>
<td>Refund/transfer of unspent balances of financially closed emergency projects to be actively monitored by OER so that funds do not remain in these closed emergency projects for a considerable period of time.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>9.</td>
<td>Guidance on proactively designing projects/programmes for the PPA BL4 - Resilient Agrifood systems, to be systematized in the shape of usable templates and reference documents, while promoting complementarity between emergency interventions and resilience building over the long term. These to be placed in the Handbook for ease of access and use during project/programme formulation, so that project formulators/Country Offices take cognizance of this priority area and actively build it into the country programming frameworks.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>10.</td>
<td>AA approach to be mainstreamed in the Emergency and Resilience efforts of the organization considering its value of investment, by building upon the evidence and analyses collected by the AA team and recommending roadmaps for setting up Early Warning Early Action systems in all Country Offices.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>11.</td>
<td>The good practice of following the Checklist to be continued for the benefit of expeditious assessment and clearance of cash transfer modality projects. OER to communicate the check-list to project formulator/budget holder for improved data collection so as to reduce inordinate delays.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>12.</td>
<td>OER to prepare a roadmap and finalize the modalities and timelines for initiating the operational peer reviews of all the ongoing L3/protracted responses.</td>
<td>Significant</td>
<td>2024</td>
</tr>
</tbody>
</table>

**Information Technology Audit of Global Resource Management System**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>13.</td>
<td>The envisioning Phase for the evolution of GRMS to target time bound achievement of truly integrated IT solution encompassing all functionalities – “One FAO – One System”.</td>
<td>Fundamental</td>
<td>2024</td>
</tr>
<tr>
<td>14.</td>
<td>The funding requirement for IT to be critically reviewed in the light of the projects to be initiated for the next stage of evolution of GRMS, and adequate resources made available to avoid fragmentation of IT solutions.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>15.</td>
<td>CSI to review its GRMS related licensing requirements and take a financially prudent decision regarding the nature and type of GRMS related Oracle product licenses to be retained/negotiated/procured.</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>16.</td>
<td>The distinct responsibilities in GRMS to be reviewed to make them manageable and mapped to business roles in a time bound manner, to avoid SoD violations</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td>17.</td>
<td>DR test to be conducted as stipulated in Service Delivery Agreement (SDA) and the identified</td>
<td>Fundamental</td>
<td>2023</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>deficiencies be addressed to get an assurance of minimal required service delivery in case of disasters.</td>
<td>Fundamental</td>
<td>2024</td>
<td></td>
</tr>
<tr>
<td>18.</td>
<td>The revised operational guidelines for managing Business Change Requests (BCRs) to be documented and formally approved by the competent authority.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19.</td>
<td>All attributes relating to BCR as per approved operational guidelines to be populated with corresponding values in Jira Platform.</td>
<td>Fundamental</td>
<td>2024</td>
</tr>
<tr>
<td>20.</td>
<td>The Business Change Requests required to generate all the Financial Statements directly from GRMS to be implemented in a time bound manner, to mitigate the risk of errors in financial statements preparation.</td>
<td>Fundamental</td>
<td>2024</td>
</tr>
<tr>
<td>21.</td>
<td>FAO to initiate time-bound actions to cleanse the Vendor database thereby ensuring accurate information, including flagging of UNGM unregistered vendors. FAO to review the Vendor creation data template (FAO Supplier Wizard) to designate essential fields as mandatory in order to enhance data quality.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.</td>
<td>An integrated Procurement System to be planned for and implemented in a time-bound manner, so that existing known control weaknesses in the Procurement system are addressed. This would include integrating Procurement planning within the overall procurement process, as also the availability of complete procurement documentation for key sourcing processes.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Compliance Audit**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>23.</td>
<td>A gender equality stocktaking exercise to be conducted at the earliest and to take appropriate measures for equitable gender representation in the FAO workforce.</td>
<td>Significant</td>
</tr>
<tr>
<td>24.</td>
<td>Country Office asset registers to be regularly updated with all required information, and internal controls pertaining to collection of asset-related data, strengthened to ensure reliable and complete documentation.</td>
<td>Significant</td>
</tr>
<tr>
<td>25.</td>
<td>Performance securities to be obtained in all cases as per applicable regulations to secure the financial interest of the Organization during the contracted and maintenance/Defect Liability Period.</td>
<td></td>
</tr>
<tr>
<td>26.</td>
<td>Controls to be established to ensure that grant of advance payments to vendors are made strictly as per FAO guidelines.</td>
<td></td>
</tr>
<tr>
<td>27.</td>
<td>FAO Management to further encourage competitive public procurement and take steps to reduce the use of exceptional awards/direct procurement while strictly ensuring documentation requirements in GRMS.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>28.</strong></td>
<td>FAO to amend its Manual to specifically establish delegation of acceptable risk based procurement limits for Direct Procurement.</td>
<td>Fundamental</td>
</tr>
<tr>
<td><strong>29.</strong></td>
<td>FAO to strengthen its internal controls related to surprise verification of cash counts.</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>30.</strong></td>
<td>Internal Controls to be strengthened in a time bound manner to ensure that no ineligible unmatched procurements are allowed.</td>
<td>Significant</td>
</tr>
<tr>
<td><strong>31.</strong></td>
<td>Travel claims to be regularly reviewed, and action taken to clear outstanding advances, in line with FAO rules.</td>
<td>Significant</td>
</tr>
</tbody>
</table>
Key Financial Facts

(Figures in USD Million)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>2,795.83</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>1,908.24</td>
</tr>
<tr>
<td>Surplus for the year</td>
<td>850.26</td>
</tr>
<tr>
<td>Assets</td>
<td>5,771.81</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,756.34</td>
</tr>
<tr>
<td>Net assets</td>
<td>4,015.47</td>
</tr>
<tr>
<td>Employee benefits and other personnel costs</td>
<td>433.95</td>
</tr>
</tbody>
</table>

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 the 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, accounting system, internal financial controls, and in general, the administration and management of the Organization.

29. This is the third year of our audit mandate and the third 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 2022, 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 2022, 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.
During the financial year 2022, apart from the audit of the financial statements at headquarters, we audited the Regional Office for Latin America and the Caribbean (RLC), the Subregional Office for North Africa (Tunisia) and six FAO Representations (FAORs) in Colombia, Ethiopia, Lebanon, Mexico, the Sudan and the Bolivarian Republic of Venezuela.

Performance Audits of the working of the Office of Emergencies and Resilience (OER) and the Global Resource Management System (GRMS) were carried out. We audited the financial statements of the FAO Credit Union for the financial year 2022 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).

Methodology and auditor’s responsibilities

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.

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.

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 the 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.

We reported the audit results to FAO Management in the form of Management Letters which contain detailed observations and recommendations. The practice provides for a continuing engagement with the FAO Management.

AUDIT FINDINGS AND RECOMMENDATIONS

Follow-up of previous External Audit recommendations

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 2022 is presented in the following table. A separate document will be presented to the 198th Session of the Finance Committee with an updated status of recommendations:
Table 1
Status of Implementation of Recommendations

<table>
<thead>
<tr>
<th>External Audit Report</th>
<th>Total Recommendations</th>
<th>Outstanding as per External Audit Report 2021</th>
<th>Implemented</th>
<th>Outstanding recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>29</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td>41</td>
<td>7</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>2019</td>
<td>42</td>
<td>17</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>2020</td>
<td>48</td>
<td>37</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>2021</td>
<td>20</td>
<td>20</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>83</td>
<td>34</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: Information provided by FAO

39. Table 1 shows that out of 20 recommendations made by the External Auditor during audit of the financial year 2021, 12 (60 percent) have been implemented and the remaining 8 are in the process of implementation. There were 63 outstanding recommendations for the period 2017 to 2020, out of which 22 (35 percent) have been implemented.

RESULTS OF AUDIT

40. This section presents the results of the audit for the financial year 2022, 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 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

41. FAO’s reserves increased from USD 149.04 million to USD 614.25 million on account of actuarial gains. As a result, net assets of FAO increased from USD 2.70 billion at the end of 2021 to USD 4.02 billion at the end of 2022 due to an increase in the accumulated surplus by USD 850.26 million.
42. FAO’s surplus of revenue over expenditure increased from USD 421.88 million in the year 2021 to USD 850.26 million in the year 2022. The increase in surplus was due to a 46.49 percent increase in voluntary contributions over 2021. Voluntary contributions of USD 2.23 billion earned during the year 2022 constitute 79.91 percent of the total revenue. Assessments of Member Nations under Regular Programme of USD 488.4 million form 17.47 percent of the total revenue during the year 2022.

43. Total expenditure of FAO increased marginally by 14.13 percent in the year 2022 mainly due to increases in supplies and consumables, consultant expenses, travel and other personnel costs. Expenses on supplies and consumables accounted for nearly 62 percent of the increase in expenditure, while employee travel costs accounted for around 20 percent of the increase in expenditure.

44. The total assets of FAO increased from USD 4.93 billion at the end of the year 2021 to USD 5.77 billion at the end of the year 2022. The increase was mainly due to an increase in receivables from non-exchange transactions by USD 494.52 million (accounting for nearly 59 percent of the increase in total assets). Cash and cash equivalents increased by USD 304.61 million during the year 2022, accounting for approximately 36 percent of the increase in total assets. Cash and Cash equivalent increased during 2022, mainly due to increases in cash at Banks and money market funds (USD 126.36 million), and short-term deposits (USD 200 million).

45. Total liabilities decreased from USD 2.23 billion at the end of 2021 to USD 1.76 billion at the end of the year 2022, mainly due to a 35 percent decrease in ‘Employee benefit obligations from USD 1.56 billion in 2021 to 1.02 billion in 2022 in view of a gain on actuarial valuation. There was an
increase in ‘payment received in advance’, i.e. contributions received in advance by USD 76.3 million, accounting for nearly 26 percent of total liabilities.

2. Financial Management

46. 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 the analysis are discussed in succeeding paragraphs.

3. Short term Solvency

47. The current ratio and quick ratio of 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>
<thead>
<tr>
<th>Table 2</th>
<th>Ratio Analysis of Short term Solvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>2022</td>
</tr>
<tr>
<td>Current Ratio(^a) (Current Assets/Current Liabilities)</td>
<td>5.39</td>
</tr>
<tr>
<td>Quick Ratio(^b) (Quick Assets/Current Liabilities)</td>
<td>5.28</td>
</tr>
<tr>
<td>Cash Ratio(^c) (Cash and current investments/Current liabilities)</td>
<td>3.31</td>
</tr>
<tr>
<td>Total Assets to Total Liabilities Ratio</td>
<td>3.29</td>
</tr>
</tbody>
</table>

Source: FAO 2022, 2021, 2020 financial statements

4. Long term Solvency

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

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Ratio Analysis of Long term Solvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description and Ratio</td>
<td>2022</td>
</tr>
<tr>
<td>Total Liabilities (Millions of USD)</td>
<td>1756.34</td>
</tr>
<tr>
<td>Net Assets (Millions of USD)</td>
<td>4015.47</td>
</tr>
<tr>
<td>Total Liabilities to Net Asset Ratio(^3)</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Source: FAO 2022, 2021, 2020 financial statements

49. The total liabilities, which was 0.93 times of the net assets in the year 2020, reduced over the two years to 0.44 during the year 2022.

\(^a\) A high ratio is an indicator of good solvency. \(^b\) 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. \(^3\) A Low Ratio is good indicator of solvency.
Changes made in the Financial Statements and Note Disclosures on the recommendations of Audit:

50. Based on our audit observations and recommendations, we worked with the Management to help secure necessary amendments in the financial statements. Some of the important amendments recommended by audit and carried out by the Management, are outlined in Annexure 1.

**AUDIT FINDINGS**

**Non-recognition of the fair value of revenue from voluntary contributions**

51. IPSAS 23 provides that an asset acquired through a non-exchange transaction is initially to be measured at its fair value\(^4\) as at the date of acquisition.

52. FAO from FY 2021 has been recognizing up front, as revenue, contributions pledged in binding multi-year agreements. However, such contributions are being accounted for at their nominal value.\(^5\) These contributions have maturities extending for as long as 9 years and, out of net receivables of USD 2.39 billion as of the end of 2022, a significant proportion (USD 0.98 billion, accounting for 41 percent) will be due only after FY 2023.

53. We observed that considering the amount of voluntary contributions receivable and their long horizons, their depiction at nominal value is not consistent with fair value considerations. We are of the opinion that FAO may recognize the multi-year contributions at the net present value\(^6\) using an appropriate discounting rate to reflect the fair value of the long-term receivables and adjust the 2022 financial statements and make a corresponding disclosure in the notes to the financial statements.

54. Management noted the observations and recommendations, and agreed to revise the value of the outstanding long-term receivables generated on Voluntary contributions, to reflect its present value as at 31 December 2022, by discounting said receivables using the US Government Bond yield curve.

**Recommendation 1:** FAO to recognize fair value of revenue from voluntary contributions and include a corresponding disclosure in the notes to the financial statements.

55. Management accepted the recommendation.

**Non-recognition of the fair value of revenue from assessed contributions**

56. IPSAS 23 provides that an asset acquired through a non-exchange transaction is initially to be measured at its fair value, as at the date of acquisition.

57. We observed that an amount of USD 1.3 million has been shown as non-current assessed contributions receivable from Member Nations in the Note to the FAO’s Financial Statements 2022. The amount was recognized as revenue, in view of Conference resolutions approving the installment plans to liquidate certain\(^7\) arrears of contributions. Considering the amount of the assessed contributions receivable in future years, we consider that their depiction at nominal value is not consistent with fair value considerations.

58. We also observed that, as per Note 5.5, the allowance for doubtful accounts in relation to assessed contributions receivable has been calculated on contributions that have been outstanding for more than two years. Additional provisions on the less than two-year portion of assessed contributions

\(^4\) Fair value is the price that would be received to sell an asset or paid to settle a liability in an orderly transaction between market participants at the measurement date.

\(^5\) Nominal value refers to the unadjusted rate or current price, without considering inflation or other factors as opposed to real values, where adjustments are made for general price level changes over time.

\(^6\) Net Present Value is the result of calculations that find the current value of a future stream of receipts/payments, using the proper discount rate.

\(^7\) (Resolution 2/17) and (Resolution 2/21) over a period of 20 years and 10 years, respectively.
have been included to fully provide for five member countries, whose contributions receivable outstanding for less than two years amounting to USD 1.07 million.

59. Management accepted the audit observation and stated that FAO will recognize the outstanding long-term assessed contribution receivable at its fair value, using the US Treasury Bond yield curve to discount the asset to its present value, as of 31 December 2022.

60. Management further stated that they will revise note 5.5 to state that: “The allowance for doubtful accounts in relation to assessed contributions receivable has been calculated on contributions that have been outstanding for more than two years. Additional provisions on the less than two-year portion of assessed contributions have been included to fully provide on an individual basis, as required.”

Recommendation 2: FAO Management to recognize fair value of revenue from assessed contributions due in future years and disclose its policy of individual basis adjustments to Provisions relating to Voluntary Contributions in the notes to the financial statements.

61. Management accepted the recommendation.

Non-creation of liability in respect of Conditional Voluntary contribution

62. IPSAS 23 requires that the inflow of resources from a non-exchange transaction recognized as an asset must be recognized as revenue only to the extent that stipulations on a transferred asset do not give rise to a present obligation, i.e. there are no conditions attached to the asset.

63. Note 2.48 of FAO’s Financial Statement 2022 states that ‘Voluntary contributions and other transfers, which are supported by enforceable agreements, are recognized as revenue at the time the agreement becomes binding, with a corresponding asset being recognized for amounts unbilled unless the agreement establishes a condition on the transferred asset that requires recognition of a liability. In such cases, revenue is recognized as the conditional liability is discharged.’

64. We observed that FAO has considered all the agreements (2082) entered with donors as unconditional and recognized revenue upfront. Out of 2082 agreements, 245 were related to the agreements entered with the European Union and European Commission (EC) under the Financial and Administrative Framework Agreement (FAFA). An examination of a sample of 10 such agreements indicated that there were conditions attached to the agreements, which raised present obligations attached to the asset. The conditions state that EC may terminate the agreement if the Organization fails to fulfil a substantial obligation under the terms of the agreement or fails to comply with the reporting obligations etc. In respect of unmet obligations, EC may terminate the agreement and refuse to pay any outstanding amount and even recover unduly paid amounts from FAO. The obligations included submission of progress reports and final reports relating to the implementation of the Schemes within the prescribed timelines, conditions as to payment arrangements, refund of surplus balance, interest on pre financing, etc. Besides, the recipient must furnish a management declaration, that the expenditure was used for its intended purpose as defined in the agreement.

65. FAO in response stated that FAO’s Financial Regulation 6.7 do not allow the acceptance of voluntary funding under agreements that create any additional financial obligations for Member Nations. Further, as per IPSAS 23, para 21: “In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction.” FAO’s experience of EC-funded projects under the FAFA is that there is no historical basis for the assertion that the clauses in the agreement can be considered as “conditions” under IPSAS 23.

66. FAO stated that the return of funds to the EC has been limited to unspent amounts following project completion similar to other standard Trust Fund arrangements. FAO further stated that while
FAO agreements generally specify tranches of funding, these are not linked to specific milestone delivery events. This timing incorporates the FAO Financial Regulation requirement that funding must be obtained before FAO is permitted to perform any work, however, is not indicative of the value of the enforceable claim FAO has over the contractual revenues.

67. We noted that the funding related to EC/EU agreements is indeed linked to milestone delivery events, as Article 19.2 of General Conditions for Contributions agreements states that except for the first pre-financing instalment, the payments shall be made upon approval of the payment request accompanied by a progress or final report. The final amount shall be established in line with Article 20. If the balance is negative, the payment of the balance takes the form of recovery. Article 20.3 states that where the action (i) is not implemented, (ii) is not implemented in line with the Agreement or (iii) is implemented partially or late, the Contracting Authority may, after allowing the Organization to submit its observations, reduce the EU contribution in proportion to the seriousness of the above-mentioned situations.

68. However, notably, IPSAS 23, para 21 further states: “If the entity has no experience with the transferor or has not previously breached stipulations that would prompt the transferor to decide whether to enforce a return of the asset or other future economic benefits or service potential, and it has no evidence to the contrary, it would assume that the transferor would enforce the stipulation and, therefore, the stipulation meets the definition of a condition.” Management in one of its replies to the observation had confirmed that there were no previous instances of breaches in the past. As per IPSAS 23 quoted above, such the stipulation is to be considered as a condition if there are no previously breached stipulations.

69. We also noted the strict payment procedure in the FAFA agreement wherein further pre-financing after the initial pre-financing is based on the implementation reports submitted by the recipient. Hence, as per IPSAS, while recognizing the donations under conditional agreements as an asset, a liability (unbilled revenue of USD 433.50 million for FAFA agreements) should also be created by FAO for all conditional agreements in view of the conditions attached to the grant.

**Recommendation 3:** FAO to examine the voluntary contribution agreements, including the EU FAFA agreements, which impose performance obligations on the recipient and meet the criteria for recognizing the contributions under these agreements as conditional and account for as per its stated policy.

70. Management noted the recommendation.

**Application of incorrect exchange rate**

71. IPSAS-4 para 24 stipulates that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot rate between the functional currency and the foreign currency at the date of transaction. The date of the transaction is the date on which the transaction qualifies for recognition in accordance with IPSASs.

72. For PP&E items, the transaction date is the date on which the asset Property, Plant and Equipment (PP&E item) has been placed in service. The asset is recognized on this date and starts to depreciate from this day onwards till its defined Useful Economic Life (UEL). Para 2.6 of FAO’s Annual Financial Statement (AFS) 2022 states that non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date when the item was recognized. As such PP&E items purchased in foreign currency should be taken on the IPSAS ledger at the exchange rate applicable on the date of placing the asset in service.

73. We examined 25 sample PP&E items to derive assurance on asset accounting. We observed variations between the date of application of the exchange rate vis-a-vis the date of placing the asset in service. As these transactions were not in accordance with IPSAS-4 provisions and FAO’s stated accounting policy they would lead to inaccurate asset accounting, depreciation and disposal of the assets.
Management in its reply acknowledged that the current practice applies the foreign exchange rate to asset capitalization based on the date of invoice recognition in GRMS, instead of the rate effective on the date of placing the asset in service. Management further stated that they investigated the financial impact of revising the foreign exchange rates applied to 2022 asset additions and has concluded the impact to be immaterial, i.e. approximately 1 percent of asset additions, and any correction would require manual intervention with the risk of error not justified.

While appreciating the reply of the management of the present impact not being material, we are of the opinion that the asset valuation practice of the Organization should recognize assets from the date of them being placed in service. This would ensure that all material asset valuations are duly reflected in the financial statements in future in compliance with IPSAS 4.

**Recommendation 4: FAO to take measures to recognize its assets from the date of them being placed in service.**

Management noted the recommendation.

### Non-provision for Value Added Tax receivable outstanding for more than three years

FAO undertakes agreements with local governments regarding the Organization’s obligation to pay value added tax (VAT) on goods and services. In most countries worldwide, FAO is generally exempt from paying Value-Added Tax (VAT) on the purchase price. However, some governments request FAO to pay the VAT to the tax authorities at the moment of purchase of goods and services and subsequently reimburse FAO for the VAT paid. Depending on the circumstances, purchase orders and invoices will be processed differently in the Global Resource Management System (GRMS).

We observed from Note no. 7 of Statement-1 (Statement of Financial Position) that as at 31 December 2022 the total prepayments and other current assets was USD 70.6 million. This included an amount of USD 8.6 million as VAT receivable. We further observed that no provision was made for the VAT receivable. IPSAS 23 related to non-exchange revenue also highlights that an allowance for doubtful receivables should be made in financial statements.

The Management replied that there was no provision for the outstanding VAT receivable of USD 8.6 million, and that in general the VAT recovery process can be lengthy (2-3 years) and vary significantly from country to country.

We are of the opinion that as the recovery process is uncertain and takes longer time evident from Management replies as well as data, it would be prudent to make allowances for doubtful VAT receivable. Non-allowance for doubtful VAT receivable has resulted in overstatement of assets as well as the understatement of expenses by USD 4.65 million as indicated with age analysis in Annexure 2.

Management agreed that in light of the average 2-3 years required to successfully recover VAT claims, it is appropriate to create a provision for claims that were outstanding more than three years, which it estimated to be USD 3.4 million for the 2022 FS.

**Recommendation 5: Management to indicate in their accounting policy, the criteria for valuation of doubtful VAT receivables after assessing the general trend of reimbursement of VAT and to create appropriate Provisions for doubtful VAT receivables in the Financial statements**

Management accepted the recommendation.

---

8 For VAT receivables outstanding for more than two years i.e. outstanding VAT till 2020 without taking into account Foreign Exchange Variation.
B. MANAGEMENT MATTERS

Performance Audit of Office of Emergencies and Resilience (OER)

Introduction

83. The FAO Council approved (July 2020) the creation of the Office of Emergencies and Resilience (OER) (formerly a division) with the intention to highlight the cross-cutting nature of this work throughout the Organization.

84. OER takes the lead in developing the evidence regarding the severity of food insecurity and in the analysis of its causes and effective remedies. OER has lead coordination roles for Programme Priority Areas (PPA) Better Life 3: Agriculture and Food Emergencies and PPA Better Life 4: Resilient Agrifood Systems. OER’s vision is that empowered people and communities lead resilient lives; livelihoods and food systems are risk-informed, sustainably productive and able to withstand, adapt to, and recover from disasters, crises and conflict.

85. The funds for emergency and resilience activities are mobilized through the bilateral agreements with donors; UN-administered humanitarian pooled funds such as the Central Emergency Response Fund (CERF) and Country-based Pooled Funds; Multi-Partner Trust Fund such as the UN Peacebuilding Fund; and International Financial Institutions such as the World Bank. In addition, resources for emergency preparedness and response also come from internal FAO funding mechanisms. The resources mobilized, and the expenditure incurred on emergency and resilience projects, from 2020 to 2022, are given below:

![Graph showing resources mobilised and expenditure OER Projects](image)

Source: Information provided by FAO

86. Emergency and resilience projects are implemented through Country Offices for national projects; through Regional or Subregional Offices for projects spanning more than one country; and by OER for Global projects that may cover more than one region. A total of 851 new emergency and resilience projects were approved in the years 2020, 2021 and 2022.

Audit Objectives

87. The Performance Audit was conducted with the following Audit objectives:
   a) whether the achievement of objectives of Strategic planning are achieved,
   b) whether there was adequate availability and proper allocation of funds,
   c) whether the programme implementation, monitoring and reporting was carried out effectively and emergency and response operations were well planned and implemented timely and effectively.
The audit covered the period from January 2020 to December 2022.

AUDIT FINDINGS

Emergency Preparedness of Country Offices

89. OER/SP5 has developed assessment tools like the Disaster Risk Prioritization (DRP) and FAO Emergency Response Preparedness Plan (FERPP) and made them available to Country Offices to prioritize disaster risk and assess preparedness of the Country Office in relation to these risks. As per the DRP guidance document, the DRP should be updated on a regular basis according to the seasonality of the potential disasters to track the development/variation of the ranking and consequent mitigation measures. At a minimum, it should be conducted on an annual basis to link to other corporate reporting requirements such as the FAO Annual Report.

90. FAO Country Annual Reports (CAR) are prepared by the FAO Country Offices in collaboration with relevant stakeholders within the respective countries. The report includes detailed data related to agriculture, food security, and rural development, among other topics. Two sections of the Country Annual Report (CAR), the Country Crisis Risk Profile and FAO’s Emergency Response Preparedness, contain information regarding the country’s vulnerability to potential risks of disasters and the capacity of Country Office to anticipate, respond and recover from crisis affecting food security, nutrition and agriculture.

91. We observed that OER does not assess the preparedness of all Country Offices regarding their vulnerability to potential disasters and the preparedness of Country Offices to address these emergencies/situations.

92. An examination of randomly selected 127 CARs submitted for the year 2021 revealed that 25 countries (20 percent of the total countries) assessed themselves to be well prepared to respond to emergencies, 90 countries (71 percent) were moderately prepared and had not reached the desired level of preparedness. It was also noted that 12 countries (9 percent) required urgent support to improve the state of emergency response preparedness. Of the latter, in one member country Level 2 response has been triggered and three other member countries have their population classified under Integrated Food Security Phase Classification (IPC) phase 2 and above. An assessment of these reports could objectively inform programming support regarding the nature and quantum of support required by Country Offices and help the OER proactively address countries’ requirements in specific areas of support.

93. The Management stated that OER will review Country Crisis Risk Profile and Emergency Response Preparedness sections of the Country Annual Report and coordinate potential support with Regional Offices and Subregional Offices to Country Offices that assess themselves as inadequately prepared. They further stated that a set of objective questions framed by OER was inserted in the 2023 CAR for COs to objectively self-assess and report on preparedness.

94. We are of the opinion that with access to information on country preparedness, OER can plan, prioritize and tailor its support for specific country contexts.

**Recommendation 6**: OER to consider making use of Country Crisis Risk Profile and Emergency Response Preparedness sections of the CAR to regularly assess the emergency preparedness.

---

9Strategic Programme 5: under the strategic Objective 5 of the old Strategic framework, previously was responsible for resilience programming including disseminating guidance for emergency preparedness.

10 Level 2 Emergency Response is the Regional Scale-up Emergency Response, activated when capacities of a Country Office are overwhelmed by a disaster or crisis and the respective Regional Office can provide the required support. Level 3 Emergency Response is the Corporate Scale-up Emergency Response and Corporate Protracted Emergency Response, activated when the capacities of the Decentralized Offices are overwhelmed by the disaster or crisis, thus requiring full FAO corporate support.

11The Integrated Food Security Phase Classification classifies populations in countries with acute food insecurity into five severity phases – minimal (1), stressed (2), crisis (3), emergency (4) and catastrophe/famine (5).
status of the Country Offices with a view to taking informed decisions and provide proactive support to Country Offices that assess themselves as inadequately prepared to address disaster risk.

95. The Management accepted the recommendation.

Monitoring and Evaluation of Emergency and Resilience projects

Monitoring use of MEAL framework

96. The Programme and Results team in OER leads emergency and resilience thinking, linking results/evidence from Country Office level to key global processes and offers normative guidance. This includes the Monitoring, Evaluation, Accountability and Learning (MEAL) team which provides capacity building support including capacity assessment and technical and implementation support.

97. The MEAL framework was established for:
   - generating quality and timely data to foster understanding of vulnerable populations’ livelihood, food and nutrition security and resilience needs,
   - emphasizing the linkages between data, learning and systematic knowledge management (KM),
   - assessing the impact of a programme on the beneficiaries and the progress it made against its set objectives and targets,
   - taking corrective action(s) should the monitoring of results show evidence of going off-track,
   - tracking and communicating of results to beneficiaries, government line ministries and donors,
   - sharing lessons learnt for informing designs of new programmes.

98. The standardized guidance on MEAL activities including templates for MEAL Plan, Indicators tracking table, Logical Framework matrix and guidance for baseline survey questionnaires etc. have been developed and made available for use in Country Offices. The MEAL team in OER has supported 11 countries in the preparation of their MEAL plans and helped four Country Offices for developing learning products.

99. We observed that the status of MEAL capacities (in terms of Human Resources and Budget) and use of standardized templates/products for MEAL activities (studies, surveys, workshops etc.) in Country Offices was not being tracked by OER.

100. The Management in its reply stated that OER will monitor the HR, budget and application practices in countries. Further the Management will develop specific questions to address the audit recommendation and include them in the 2023 Country Annual Report format. Deeper evaluation and documentation of evidence for programming would be carried out separately. We are of the opinion that capture of baseline data and indicators are essential to measure the impact of the project/programme, and in this regard OER has the primary responsibility of coordinating emergency and resilience projects of FAO and providing normative guidance and support to Country Offices.

**Recommendation 7:** OER to actively track the status of MEAL capacities in terms of Human Resources and availability of Budget for these activities in Country Offices through the Country Annual Reports. Use of MEAL plans and outcomes should be utilized to monitor project effectiveness and to build a repository of evidence to inform decision making regarding effective programming.

101. The Management accepted the recommendation.

Monitoring of emergency projects

Unspent balances in financially closed emergency projects

102. FAO’s Operational Guidelines for Project Closure state that Project closure marks the end of the last phase in the project cycle when all parties, including the recipient country, resource partner(s)
and concerned units within FAO are informed of a project’s conclusion. Upon closure, no further activities or financial charges can take place.

103. Financial closure marks the date after which no further transaction will be permitted on that project account. Before proceeding with financial closure, the Budget Holder should ensure that funds have been expended according to the project budget and all payments have been made. Project financial closure should be requested no later than one month before the deadline for final financial reporting to donor is due, to ensure timely reporting and return of unspent funds.

104. We observed that 65 Emergency Projects, which were financially closed between January 2020 and December 2022, had unspent balances amounting to a total of USD 4.97 million in their financial statements. Out of these, unspent balances were lying in 53 emergency projects for a period ranging between 1 to 6 months in 27 projects, between 6 months to 1 year in 14 projects and for more than 1 year in 12 projects, even after the projects were financially closed.

105. Management stated (February 2023) that refunds in 26 projects were pending for instructions from the donors on the disposal of the closing balance and five projects were financially closed in December 2022 and that the Finance Division (CSF) monitors and processes refunds/transfers of unspent balances. Where relevant and required, CSF consults with OER and requests its assistance as part of its follow-up with donors to request their confirmation on how unspent funds should be disposed of.

106. Being emergency projects, refund/transfer of unspent balances in financially closed projects may be actively monitored by OER, especially where the funding agreement provides for immediate refund after the closure of project, as observed in three emergency projects.

**Recommendation 8:** Refund/transfer of unspent balances of financially closed emergency projects to be actively monitored by OER so that funds do not remain in these closed emergency projects for a considerable period of time.

107. The Management accepted the recommendation.

**Programming support for resilient agrifood systems**

108. FAO’s Strategic Framework seeks to support the 2030 Agenda through the transformation to efficient, inclusive, resilient and sustainable, agrifood systems for better production, better nutrition, a better environment, and a better life, leaving no one behind. OER has the lead coordination role for the Programme Priority Areas (PPA) Better Life 3 (BL3) - Agriculture and Food Emergencies and PPA Better Life 4 (BL4) - Resilient Agrifood systems. The current Programme of Work and Budget clearly accounts for funding for different PPAs, recognizing the need to prioritize each one separately.

109. In line with the Strategic Framework, Resilience Agrifood Systems (BL4) is being prioritized across projects/programmes in FAO. We observed that as of 3 February 2023, there were 377 operationally active projects of FAO in 134 countries that have a BL4 component. 17.5 percent of these projects have 100 percent of their funding aligned with this PPA and 38 percent of these projects have 50 percent or more of their funding aligned with this PPA.

110. We, observed that there is need to further define guidance/support for the PPA BL4 as distinct from BL3 within the OER and in relation to Regional Offices/hubs. The Management stated that promoting the complementarity between emergency interventions and resilience building over the long term would be a better approach. Resilience cannot be prioritized over emergency response; both must be handled in a coherent and mutually reinforcing approach. We recognize that the operational modalities and other procedures overlap for the two PPAs and segregation of duties regarding these PPAs might not be pragmatic. However, clear guidance and focus is required for actively integrating resilience in programming.

---

111. The Management agreed and stated that OER is in the process of developing guidance for designing Resilient Agrifood system projects and programmes (under PPA BL4) in emergency contexts, and further stated that this information will be added to the OER Handbook once it is complete. They also stated that other technical units also contribute to BL4 and are responsible for the corresponding guidance on these initiatives.

112. We are of the opinion that this is a welcome starting point which, along with identification of capacities required at Country Offices, can be used to build focused guidance for resilience programming and evaluation reporting.

**Recommendation 9:** Guidance on proactively designing projects/programmes for the PPA BL4 - Resilient Agrifood systems, to be systematized in the shape of usable templates and reference documents, while promoting complementarity between emergency interventions and resilience building over the long term. These to be placed in the Handbook for ease of access and use during project/programme formulation, so that project formulators/Country Offices take cognizance of this priority area and actively build it into the country programming frameworks.

113. The Management accepted the recommendation.

**Anticipatory Actions**

114. Anticipatory Action (AA) is defined as acting ahead of predicted hazards to prevent or reduce acute humanitarian impacts before they fully unfold. Anticipatory Actions are short-term disaster risk management interventions implemented during the critical time window between an early warning trigger (the point in time when forecasts show that a hazard is likely to occur in the future) and the actual occurrence of the shock, i.e. before impacts on lives and livelihoods materialize.

115. The first step for FAO Country Offices to effectively adopt the AA approach is to understand the main risks the country is faced with, and to rank the risks according to their likelihood and potential impacts on agriculture and food security. The Disaster Risk Prioritization (DRP) guidance helps in this risk prioritization process. Secondly, a Country Office needs to set up an Early Warning System (EWS) to monitor the prioritized risks, if not already available at country level. The EWS consists of a set of indicators and associated thresholds related to a potential hazard. Thresholds mark the point where Anticipatory Actions (AA) should be implemented. Finally, the information should be consolidated into an AA protocol or Plan. An AA Protocol or Plan summarizes how Early Warning (for the prioritized risks) links to Anticipatory Actions in a specific country.

116. We observed that a draft FAO Early Warning Early Action Country toolkit was circulated to field offices for review and feedback and used to develop an e-learning course. The guidance is currently being revised and is expected to be published in 2023. A repository of good practices is also available for reference in the AA section of the Handbook.

117. We also observed that the AA team provides demand-based support to over 20 Country Offices. For the Country Offices not supported by the AA team, there is no information with OER on the existence and reliability of early warning systems and formulation of AA protocols or Early Warning Early Action plans.

118. We further observed that only 33 AA projects were taken up in 29 countries in the years 2020, 2021 and 2022. Some of these projects were launched following an early warning trigger and related procedures agreed in AA protocols. In some other cases, the projects were launched following ad-hoc requests received from the CO, even in the absence of pre-agreed AA protocols. In cases when there is no active AA protocol with pre-agreed triggers, the requests to access SFERA-AA funds are accepted only if there is strong early warning evidence that a disaster may occur in the near future.

119. The Management in its reply stated that the primary focus of OER’s support will be the prioritized scale-up countries. OER is developing roadmaps and systems and will require other FAO units and in particular the willingness of Country Offices to follow the guidance. AA guidance for setting up AA systems will be available to all Country Offices through the Handbook.
120. We acknowledge the Management reply and are of the opinion that analyses of impact of Anticipatory Actions demonstrate that there is greater return on investment for such interventions. Thus, prioritizing such interventions not only adds more value but also helps in reduction of severity of disasters thereby saving livelihoods.

**Recommendation 10:** AA approach to be mainstreamed in the Emergency and Resilience efforts of the organization considering its value of investment, by building upon the evidence and analyses collected by the AA team and recommending roadmaps for setting up Early Warning Early Action systems in all Country Offices.

121. The Management accepted the recommendation.

**Issues in projects with Cash Transfer (CT) modality**

**Delay in approval/non-approval of Cash transfer modality of the projects**

122. Cash transfers are assistance in the form of money provided to the affected population. FAO uses cash-based transfers for a broad range of complementary purposes: to provide immediate relief to farmers, strengthen livelihood resilience to future shocks, etc. FAO’s Manual Section (MS) 702 establishes the accountability framework, policies, rules and procedures that govern the delivery of Cash Transfer (CT) projects.

123. As per the Checklist for cash transfer modality feasibility clearance, the clearance for cash transfer will be given once the technical and feasibility review has been satisfactorily completed. If the level of information available in the project document is satisfactory, clearance will be customarily provided in less than 48 hours.

124. We noted that in 257 cases, OER provided cash modality feasibility clearance to various projects during the years 2020, 2021 and 2022. On analysis of the clearances in respect of 25 randomly sampled projects, we observed that there were delays in giving clearance in respect of 16 projects. The delay in respect of 9 cases was less than 10 days, while in 7 cases it ranged between 39 to 205 days.

125. The Management replied (February 2023) that the Checklist is not required by the MS 702 but has been developed by OER as a good practice. It further stated that the delays were generally attributable to non-collection of sufficient details about the projects, coordination with different teams, preparation, justification and review of deviation requests, if any.

126. While appreciating the good practice of the Management, we are of the opinion that cash transfer programs are an essential tool in the fight against poverty and food security. The cash transfers provide a flexible and efficient way of supporting vulnerable population, and delay in clearance of emergency projects could adversely impact the fight against poverty and food security. These delays require to be monitored and addressed on priority basis.

**Recommendation 11:** The good practice of following the Checklist to be continued for the benefit of expeditious assessment and clearance of cash transfer modality projects. OER to communicate the check-list to project formulator/budget holder for improved data collection so as to reduce inordinate delays.

127. The Management accepted the recommendation.

**Peer reviews under Emergency activation and response protocol**

128. For monitoring and evaluation and deriving assurance on Level 3 emergency responses, defined under the emergency response accountabilities and responsibilities for activation, implementation and review process, the Director, OER is required to initiate and coordinate operational peer reviews within three to six months into a Level 3 Emergency Response. DG’s Bulletin 2022/6 requires that operational reviews are conducted within three to six months into a Level 3 Emergency Response.
129. OER had also agreed to an Office of the Inspector General (OIG) recommendation to initiate and coordinate operational peer reviews before ending a Level 3 or protracted emergency with the purpose of identifying potential exit strategies or transitions to resilience building.

130. We observed that thirteen countries have ongoing Level 3/protracted emergency responses that were activated or converted into protracted responses between 2014 and 2022. However, operational peer reviews have not been initiated/planned for any of these responses.

131. The Management replied that as recommended they have prepared the roadmap and finalized the modalities and timelines for initiating the operational peer reviews of all the ongoing Level 3 protracted responses

Recommendation 12: OER to prepare a roadmap and finalize the modalities and timelines for initiating the operational peer reviews of all the ongoing L3/protracted responses.

132. The Management accepted the recommendation.

Conclusion

133. In discharging its responsibility for oversight of emergency and resilience projects, OER has formulated a scale-up strategy focusing on resource mobilization and operational capacity through direct engagement of decentralized offices. Monitoring of Emergency and Resilience projects is required to be strengthened so that delays in operationalization, submission of the terminal reports, and financial closure of projects are avoided; unspent balances in financially closed projects are refunded or transferred timely; CT projects are approved expeditiously and the CVA database is maintained in a complete and accurate manner.

Information Technology Audit of Global Resource Management System (GRMS)

Introduction

134. The Global Resource Management System (GRMS) is the primary ERP system utilized by FAO. GRMS is based on Oracle e-Business Suite (eBS), an integrated software application suite purchased and licensed for use by the Oracle Corporation. eBS functionality has been configured and customized over time to align with FAO policies and processes. The application itself is hosted by UNICC, Geneva, and most of the business operations are managed by the Shared Services Centre (SSC) in Budapest, with its technical management done by the CSI division in FAO headquarters, Rome

Audit Scope and Objectives

135. The scope pertained to review of:

   a) status of implementation of various modules;
   b) stabilization of various functionalities deployed in previous years;
   c) overall performance of the system;
   d) integration with other IT applications; and
   e) benefits realized with the implementation of GRMS.

136. The primary objective of the audit was to assess:

   i. whether the objective of integrated end-to-end automation of functionalities of GRMS processes by way of an ERP was achieved;
   ii. whether the application had adequate application controls to ensure completeness, accuracy and reliability of the data;
   iii. whether planning, implementation, delivery, and monitoring of the ERP was in conformance with FAO’s business rules; and
iv. whether requirements and planning, implementation and monitoring of Business Continuity Plan and Disaster Recovery Plan of GRMS were in conformance with international standards, and as per requirements of FAO.

**AUDIT FINDINGS**

**IT Governance**

137. IT governance is an element of corporate governance, aimed at improving the overall management of IT and deriving improved value from investment in information and technology. FAO is a large and complex organization, which is ideally placed for leveraging technology for increased efficiency and effectiveness in operations across its large network of Country Offices. Current GRMS functionality includes administrative processes within FAO in the areas of HR, Finance, Procurement and Travel. GRMS is integrated within the overall FAO ERP environment, which includes multiple corporate solutions and specialized applications, both on premise and in the cloud.

138. We noted that though GRMS is based on the Oracle E-Business Suite – the flagship ERP product from Oracle, it does not function like an integrated ERP solution. GRMS forms a part of the larger IT ecosystem in use within FAO, for its diverse functions. This is illustrated in the graphic below:

![Present IT ecosystem in FAO](source.png)

139. We noted that FAO’s Manual Section 13 505, clearly states that the overall responsibility for IT in the Organization is with the IT Division Director, who also has the role of Chief Information Officer, and who is supported in this capacity by the IT Division with responsibilities for clearing all IT related initiatives, including Terms of Reference, and work on IT Related Initiatives for FAO Personnel.

140. Our examination of the ERP Board minutes indicated that the responsibility for IT Initiatives, over a period of time, has also spread across multiple units and persons, with its consequent diffusion of responsibility. Many of the IT initiatives are now led by the Shared Service Centre, including the critical project of Segregation of Duties.

---

13 FAO Manual, Chapter V – Property and Services, Section 505 on Information Technology effective from 26 March 2021.
141. We also noted that the progress in achieving an integrated ERP environment enabling FAO to function at a significantly higher level of efficiency and effectiveness is still in the planning stage, with envisioning of the future state planned in the first quarter of 2023.

142. We also noted that multiple internal (Minutes of ERP Board Meetings) and external reports (Price Waterhouse Cooper, Gartner, etc.)\(^\text{14}\) have pointed out similar shortcomings and the urgent need for changes in the current FAO ERP system (Annexure 3). A few such shortcomings are listed below:

i. All budgets are initially issued in GRMS for overarching control and subsequently monitored through Performance Budget Reports (PBRs) as units report on their execution against plans. For finer granularity, detailed budget monitoring is often carried out using Excel sheets, which are external to GRMS and may not be directly linked to other activities and their outcomes.

ii. There is high level of system fragmentation due to large number of processes. Policy ownership between Logistics Division (CSL) and Finance Division (CSF) regarding asset and inventory management is unclear.

iii. Centralization vs Decentralization. FAO has not yet identified which components need to be centralized in the SSC from a strategic point of view.

iv. The ERP does not support timely recording of asset disposal and transfer.

v. The current GRMS is not fully compliant with policy requirements so operational processes in the ERP can differ from FAO’s policies.

vi. There is no integration between the Field Programme Management Information System (FPMIS), the project for project appraisal and the expenditure recording system of Global Resource Management System (GRMS).

vii. Lack of an integrated document repository / system across the source-to-pay (S2P) process with impact on data quality and possible data losses.

viii. Contract management is not supported by any system, and thus requires intensive manual effort. This has negative impacts on the downstream procurement activities (e.g., receipts and invoicing).

ix. The procurement process suffers from general efficiency and integrity issues caused, among other factors, by significant system fragmentation (e.g., United Nations Global Marketplace (UNGM), In-Tend, GRMS, spreadsheets), and the complete or partial (depending on the cases) lack of support in certain highly relevant process areas, such as procurement planning, downstream sourcing, procurement workflow approval, contract management, and document repository.

143. We further noted that the IT Division faced increased budgetary pressures, which were likely to further aggravate as GRMS evolves towards a cloud-based hybrid solution. We also noted that, many of the IT initiatives led by the Shared Service Centre, including the critical project of Segregation of Duties\(^\text{15}\) and the envisioned systems like Project Lifecycle Management System (PROMYS)\(^\text{16}\) could not be operationalized. Funding constraints is also likely to affect the availability of skilled technical manpower within the IT Division of FAO.

144. The Management accepted the limitations in budget and stated that this will be reviewed as part of the definition of the next phase of the ERP Transformation Programme and following the results of its envisioning phase. They stated that discussions have already been held between the IT department


\(^{15}\) As per para 502.1.4.5.8 of FAO Manual, Segregation of duties is an internal control mechanism used to safeguard the integrity of the procurement process by assuring no single individual nor unit of the Organization is given responsibility for more than one procurement related function.

\(^{16}\) The PROMYS system will allow monitoring projects in terms of budget expenditures and activities, covering both national financed projects and international development assistance.
(CSI) and the Office of Strategy, Programme and Budget (OSP) to discuss resource requirements in line with the Gartner review, and the proposed Programme of Work Budget (PWB) 2024-25 includes additional funding allocations to CSI to cover these needs.

145. We acknowledge the presence of IT Governance structures like well-documented policies, ERP Boards and Steering Group. We consider that centralized and integrated IT governance supported by appropriately provisioned budget, helps in aligning IT initiatives with business objectives, brings in efficiencies while ensuring accountability, and minimizes the likelihood of project failures.

**Recommendation 13:** The envisioning Phase for the evolution of GRMS to target time bound achievement of truly integrated IT solution encompassing all functionalities – “One FAO – One System”.

**Recommendation 14:** The funding requirement for IT to be critically reviewed in the light of the projects to be initiated for the next stage of evolution of GRMS, and adequate resources made available to avoid fragmentation of IT solutions.

146. The Management accepted the recommendations.

**Review of Licenses**

147. With a view to assess licensing compliance issues relating to GRMS, we requested a copy of the licensing agreement with Oracle in respect of e-Business suite, and any other Oracle products in use for providing services related to GRMS and the nature and type of software licenses purchased; and amounts paid as a part of Software licensing requirements from 1st January, 2017 to 30th September 2022.

148. We noted that the original master agreement with Oracle (Agreement no-IT-133817) was not readily available with CSI. The original set of licenses were procured over twenty years ago and eight amendments to this master agreement were carried out subsequently.

149. While we were provided with the list of Oracle product licenses presently under support, with an annual support cost of almost one million USD in 2022, we were not able to match it against the Master Services Agreement detailing the licensing metrics, and the related purchase orders for the individual licenses.

150. We also noted that the consulting firm Gartner, which had been engaged for an on-going costs study (FAO ERP Cost Optimization) had reported that there was potential for saving in ongoing license maintenance costs, which currently accounted for a significant portion of the overall ERP spend. As per Gartner, this saving may be affected by suitably reviewing and renegotiating the current licenses and metrics, by taking advantage of the conversion and migration option, including shelving of licenses in the light of movement to the cloud, for various components in the coming years.

151. The Management stated that a review will take place in the context of the ERP Transformation roadmap (currently in progress). This will determine the modalities and retention of licenses as the Organization ERP technology evolves.

**Recommendation 15:** CSI to review its GRMS related licensing requirements and take a financially prudent decision regarding the nature and type of GRMS related Oracle product licenses to be retained/ negotiated/ procured.

152. The Management accepted the recommendation.

**Non-implementation of Segregation of duties for Procurement within GRMS**

153. As per FAO Manual, Segregation of duties (SoD) for procurement is an internal control mechanism used to safeguard the integrity of the procurement process by assuring no single individual or unit of the Organization is given responsibility for more than one procurement-related tasks.

---

17 IT Department of FAO (CSI).
function. Responsibilities within GRMS are controlled through allocation of one or more pre-configured responsibilities to the Users.

154. We analysed Oracle User Logs provided by CSI and found many users were granted significantly large number of responsibilities. Our analysis revealed that 765 users had more than 10 different responsibilities during the period covered by these logs, i.e. from 1 November 2021 to 30 September 2022.

155. A stratified sample of 227 Users was drawn from this list, to check if any of these users had conflicting duties/exhibited SoD violation. While CSI provided the basic details of 227 Users, the details of user creation, which is maintained by Shared Service Centre (SSC) was not provided, despite repeated requests.

156. We noted from ERP board minutes that FastPath software had been procured and implemented three years ago at an annual cost of USD 150,000 specifically for ensuring appropriate segregation of duties. It was seen that the FastPath application had identified significant SoD violations within a responsibility (which was the pre-configured privilege allocation unit within GRMS) and across responsibilities, caused by allocation of multiple conflicting responsibilities to a single user.

157. The User creation data and report of FastPath could not be received from the Management despite requests. In the absence of user creation data and report of FastPath relating to sampled users, we could not verify the extent of SoD violation.

158. Management in its reply to the observation, stated that it was working towards redefining responsibilities based on business processes, which can then be segregated according to SoD principles. They further stated that they are currently working on a pilot to test the FastPath software and operating model within a small country environment.

159. We are of the opinion that FAO should have clearly defined roles and responsibilities, implementation of checks and balances in critical processes and regular review and monitoring of compliance with SoD policies.

**Recommendation 16:** The distinct responsibilities in GRMS to be reviewed to make them manageable and mapped to business roles in a time bound manner, to avoid SoD violations.

160. The Management accepted the recommendation.

**Conduct of Disaster Recovery Test as per Service Delivery Agreement (SDA) of UNICC**

161. United Nations International Computing Centre (UNICC) provides ERP Hosting for FAO E-Business Suite (EBS) and Oracle Business Intelligence Enterprise Edition (OBIEE) system as per the International Chamber of Commerce (ICC) service catalogue and service guide, since August 2015.

Service Delivery Agreement (SDA) signed with UNICC in August 2015 included the provisioning of a disaster recovery (DR) site, located in Geneva, in a different location outside the ICC main premises. The agreement foresees two disaster recovery tests to be performed every year. The subsequent SDA signed with UNICC in November 2020 stipulated at least one disaster recovery test per year.

162. We observed that one partial DR test was conducted each in 2017 and 2019, against the required (under SDA of 2015) two DR tests annually, between January 2016 and October 2020. The DR test revealed that the capacity of the DR server was below that of the production (PROD) Server, which in turn affected performance of the DR server.

163. FAO stated that they would discuss with UNICC the measures to mitigate the deficiencies by adding additional capacity to the DR infrastructure and that would form part of the next DR test.

164. We further observed that no DR test was conducted between December 2020 and November 2022, against at least one DR test each year, as stipulated in SDA signed in November 2020.
CSI in its response stated that they would put DR test in next year’s work plan. In the absence of DR test, the organization cannot get an assurance of attainment of Recovery Time Objective\(^ {18}\) (RTO) and Recovery Point Objective\(^ {19}\) (RPO).

**Recommendation 17: DR test to be conducted as stipulated in Service Delivery Agreement (SDA) and the identified deficiencies be addressed to get an assurance of minimal required service delivery in case of disasters.**

The Management accepted the recommendation.

**Operational guidelines for managing Business Change Requests (BCRs)**

During the 5th Meeting of the Board held in February 2019, a decision was taken to the effect that the Operational Work Group\(^ {20}\) was requested to further review and elaborate on the proposed prioritization criteria for ERP initiatives/business change requests.

We observed that no further reference to the preparation or endorsement of any guideline or proposal for managing Business Change Requests (BCRs) was mentioned in the subsequent Minutes of Meeting of the ERP Board. FAO uses a web-based platform/application called Jira to manage its BCRs. The users initiate the change request on this platform, where its further progress is recorded and tracked.

We examined 751 BCRs pertaining to GRMS recorded in the Jira platform since 2017 and observed that the BCR attributes of the field Benefit Category had data populated for classification of efficiency, compliance, effectiveness etc. for less than 10 percent of the total records. Similarly, there were many fields relating to Time and cost estimate recording and tracking,\(^ {21}\) which were not populated with values.

In the absence of Operational Guidelines for managing BCRs in the ERP and inadequate information available in Jira Platform relating to BCRs, we could not assess whether BCRs underwent a formal process of approval based on examination of the prioritization and cost dimensions.

The Management stated that the current BCRs are being reviewed in the context of the ERP Transformation roadmap (ERPT) and the new guidelines will be prepared and formally approved by the ERPT governance mechanism. Once approved the new guidelines will be operationalized in an appropriate tracking system and all relevant attributes will be captured to allow monitoring and analysis. Absence of approved operational guidelines is fraught with the risk of wrong prioritization of BCRs and consequent inefficient fund utilization.

**Recommendation 18: The revised operational guidelines for managing Business Change Requests (BCRs) to be documented and formally approved by the competent authority.**

**Recommendation 19: All attributes relating to BCR as per approved operational guidelines to be populated with corresponding values in Jira Platform.**

The Management accepted the recommendations.

**Non-generation of IPSAS Compliant Financial Statement using GRMS**

The FAO Council in its hundred and forty fifth session in December 2012, noted that the Finance Committee was informed about the changes brought by the new GRMS process and systems

---

\(^ {18}\) The RTO is the extent of acceptable system downtime. RTO of 24 hours (as per SDA) indicates that FAO will not be overly impacted if its system is down for up to 24 hours.

\(^ {19}\) The RPO is the extent of acceptable data loss. An RPO of 4 hours (as per SDA) indicates that FAO will not be overly impacted if it loses data for up to 4 hours.

\(^ {20}\) The ERP Board is supported by an operational working group, which manages ongoing modifications and enhancements to the ERP environment and reviews/vets additions to the ERP work plan for consideration and endorsement by the ERP Board.

\(^ {21}\) Original Estimate / Remaining Estimate / Time Spent / Work Ratio / Progress / Σ Progress / Σ Time Spent / Σ Remaining Estimate / Σ Original Estimate / Budget Amount.
and wider change initiatives. The revised implementation plan included a new target date for production of the first IPSAS compliant Financial Statements for FAO for the financial year 2014.

174. We noted that the Financial Statement generation requires extensive manual intervention. The Trial Balance is generated from GRMS as a report in the form of a plain-text file, which is then imported into MS Excel with considerable effort. The Trial Balance data then undergoes significant rearrangement and grouping within MS Excel, which calls for application of both accounting and financial expertise, as well as outlay of time and effort on the part of the Finance team at headquarters before the core IPSAS compliant statements are prepared.

175. A subsequent examination of the Excel sheet used by the Finance Team to prepare the Financial Statements starting with the GRMS generated Trial Balance indicated that this was on account of adjustments carried out manually within the Excel sheet itself, and which are not recorded within GRMS. These adjustments involving offsetting of receipts against expenditure were seen to be primarily affecting Accounting Ledger codes relating to Project Support Costs and Cost Recovery.

176. Management stated that IPSAS Financial statements have been structured in such a way as to present a natural “consolidation elimination” entry at the GL account code level for a series of internally generated revenues and expenses that would otherwise be incorrectly presented as double counting of income and expenditure transaction. This hierarchical presentation is fully disclosed in the Financial statements and the only “offline” adjustments recorded pertain to reclassification of expenditure transactions across activities (cost centres), and do not reflect the actual recording of transactions that could affect account balances reported in either Statement I or Statement II of the Financial Statements.

177. We, however, are of the opinion that the offline adjustments in MS Excel pertaining to reclassification of expenditure and transactions across activities has the impact of reducing both the expenditure and receipt totals of the Trial Balance, and as such, these adjustments remain manual, and not found incorporated within the business logic of GRMS.

178. The Management agreed that all financial statements, including Statement V, should be generated automatically in GRMS, and that adjustments and distribution should be made as far as possible in GRMS and not in Excel. We also noted that two Business Change Requests (BCRs) have been raised by Finance (CSFC) on 1st December 2022, to make suitable changes in GRMS to automate the process.

Recommendation 20: The Business Change Requests required to generate all the Financial Statements directly from GRMS to be implemented in a time bound manner, to mitigate the risk of errors in financial statements preparation.

179. The Management accepted the recommendation.

Deficiencies in Vendor Registration data

180. As per FAO Handbook, all suppliers willing to do business with FAO must be registered in the United Nations Global Marketplace (UNGM) and In-Tend (e Procurement Solution).

181. As part of the examination of the Sample of 283 Purchase Orders (POs), we examined the data pertaining to the 226 vendors from whom these purchases were made in the period 1st January 2020 to 30th September 2022. We examined the details of the Vendors as available within GRMS and did a search within UNGM website to confirm the UNGM number of vendors where available within GRMS, and to search for possible registration in UNGM where this data was not available in the GRMS Vendor report. We found that:

a) UNGM Registration number was not recorded within GRMS in case of 114 vendors, which constituted 50 percent of the total vendors sampled. Of these 114 vendors, 48 vendors were registered in UNGM, but the same had not been reflectedUPDATED in GRMS.

b) Of the 112 Vendors for which UNGM Number was available within GRMS, checking against the UNGM website indicated that three of these vendors had an incorrect UNGM number recorded in GRMS, while two were not registered in UNGM.
c) Two of the sampled vendors were not listed in the list of Vendors generated from Integrated Management Information System (iMIS).

182. Vendor records within GRMS are created by Shared Services Centre (SSC), based on the request received in the prescribed data template called the “FAO Supplier Wizard” for GRMS registration of vendor. We noted that this template had categorized the field – UNGM number – as optional. This could be the reason for Vendors registered in GRMS without respective UNGM numbers.

183. The supplier’s phone number, email address, and fax number are all crucial pieces of information to have in a vendor database to enable smooth communication with the vendor by FAO representatives. It was seen that the “FAO Supplier Wizard” does not require mandatory submission of supplier’s phone number, email address, or fax number. We examined these information fields both in sample and vendor list from iMIS and observed that out of 226 sampled cases, in 11 instances there was no phone number, in 26 instances no e-mail address and in 147 instances, no fax number was mentioned in vendor database, as shown in table below.

**Sample Analysis of Information not available in iMIS**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Sample</th>
<th>Population (Vendor List from iMIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Count</td>
<td>226</td>
<td>71242</td>
</tr>
<tr>
<td>Without Phone Number</td>
<td>11 (5 percent)</td>
<td>8011 (11 percent)</td>
</tr>
<tr>
<td>Without Email Address</td>
<td>26 (12 percent)</td>
<td>19979 (28 percent)</td>
</tr>
<tr>
<td>Without Fax Number</td>
<td>147 (65 percent)</td>
<td>53408 (75 percent)</td>
</tr>
</tbody>
</table>

184. During our exit conference the Chief, CSLP stated that it was not possible to always comply with the policy to do business only with UNGM registered vendors, as some vendors in remote areas would not have good internet connections and therefore, forcing the criterion on suppliers would lead to elimination of competition. While appreciating the reason, it also needs to be considered that dealing with unregistered vendors exposes the organization to the risk of FAO doing business with unreliable vendors or vendors debarred as per the UN sanctions list/UN Ineligibility List.

**Recommendation 21**: FAO to initiate time-bound action to cleanse the Vendor database thereby ensuring accurate information, including flagging of UNGM unregistered vendors. FAO to review the Vendor creation data template (FAO Supplier Wizard) to designate essential fields as mandatory in order to enhance data quality.

185. The Management accepted the recommendations.

**Non-availability of Procurement related documents in GRMS**

186. The GRMS module on Procurement is designed to carry out FAO’s Procurement. We note that the whole procurement life cycle is not going through the GRMS module. Procurement is not an integral part of GRMS, as solicitation of Bids, collection of Bid Documents as well as its evaluation is done manually outside GRMS. The POs are subsequently issued in GRMS.

187. This disjointed process runs the risk of errors in recording of essential informational attributes of the procurement process done outside of GRMS, and lapses in uploading of all relevant documents, with adverse impact on the ease of assessment of compliance with the stipulated procurement process, and the correctness of the bid evaluation process.

188. We took a stratified sample of POs for different ‘Award basis’ to assess the extent of availability of essential documents uploaded on to GRMS, and the correctness of key informational attributes. The sample comprised of 283 POs placed between 1 January 2020 and 30 September 2022, randomly
selected to ensure proportional representation across the parameters\textsuperscript{22} specified above, barring high-value POs above 1 million USD, where 100 percent of the POs were selected.

189. As per MS 502 of FAO Handbook, some of the crucial documents whose availability provides assurance that procurement was done fairly and transparently are Terms of reference by the requester,\textsuperscript{23} Technical approval by the Lead Technical Officer (LTO), Budget approval by the Budget Holder,\textsuperscript{24} Evaluation by Tender Opening Panel (TOP),\textsuperscript{25} Invoice, Delivery Report, Justification for the Direct Purchase and UN award, Approval of the competent Authority for UN award, etc.

190. The examination of the 283 randomly selected POs of various award-types to verify whether relevant documents exist in GRMS, showed the following position, as depicted in the graph below:

Details of Document information not available in GRMS

\begin{figure}
\centering
\includegraphics[width=\textwidth]{graph.png}
\caption{Details not available in GRMS}
\end{figure}

\textit{Source: Information provided by FAO}

191. Notably the Terms of reference documents in 49 percent of the cases of Direct Purchase and 58 percent of the cases of Exceptional Award, were not uploaded in GRMS. Technical approval was not uploaded in GRMS in 67 percent of Direct Purchase cases, and 53 percent of Exceptional Award cases.

192. Similarly, Budget Holder’s approval document was not available in GRMS in 73 percent of Direct Purchase cases and 62 percent of Exceptional Award cases. Evaluation sheet was not found in 40 percent of Exceptional Award cases. Justification document was not uploaded in GRMS in 71 percent of Direct Purchase cases.

193. It was observed that in most of the cases as detailed above, these crucial documents were not available for scrutiny within the set of documents linked/attached with the PO.

194. The present method of implementation of the Procurement process within GRMS does not ensure easy availability of crucial documents relating to procurement. Additionally, a critical control mechanism to ensure sequential compliance to each step of the financial procedures stipulated in FAO Handbook for a PO from its initiation to closure, is absent.

\textsuperscript{22} Based on monetary value giving due representations to procurements carried out at Country Offices and headquarters.

\textsuperscript{23} A document to help bidders understand what is required of them and to facilitate the evaluation of offers.

\textsuperscript{24} The Budget Holder is responsible and accountable for ensuring that the use of project resources is in accordance with FAO rules and regulations and financial procedures.

\textsuperscript{25} Tender opening panel is a panel of three people to facilitate the public opening of Bids.
195. We also observed that the Annual Procurement plan is prepared and maintained outside of GRMS, and thus, it was not possible to link the procurement orders with the Annual Procurement plan. As a result, the objective of preparing the Annual Procurement Plan to prioritize the procurements and increase the efficiency in the procurement process, cannot be met or monitored with ease.

196. We noted that the solicitation of bids is done through In-Tend, which also is not integrated with the GRMS. Even the evaluation of bids received through In-Tend is done offline, with no mechanism for automated intimation to the bidders regarding the results of bidding, including the reason for non-selection.

197. CSLP accepted the facts of non-inclusion of UNGM registered vendors in GRMS and the need for adding vendor data. Management further agreed with the need for an integrated procurement system and stated that the work had been included under the scope of ERP Transformation Roadmap.

Recommendation 22: An integrated Procurement System to be planned for and implemented in a time-bound manner, so that existing known control weaknesses in the Procurement system are addressed. This would include integrating Procurement planning within the overall procurement process, as also the availability of complete procurement documentation for key sourcing processes.

198. The Management accepted the recommendation.

Conclusion

199. GRMS, though based on Oracle ERP (E-business suite), did not function like an integrated ERP solution. GRMS forms a part of the larger IT ecosystem in use within FAO for its diverse functions. The Financial Statement generation still required extensive manual intervention. The Trial Balance was generated from GRMS as a report in the form of a plain-text file, which was then imported into MS Excel, with considerable effort. Procurement was not an integral part of GRMS, as solicitation of Bids, collection of Bid Documents as well as its evaluation was done outside GRMS.

C. COMPLIANCE AUDIT FINDINGS

Gender Parity

200. The United Nations, as part of its System wide strategy on gender, reviewed its representation of women in the United Nations System by entity in 2015, and pledged to reach parity in gender equality in the workforce.

201. FAO’s Strategic plan on Gender states that Centres, divisions and offices (decentralized and at headquarters) should carry out a gender stocktaking exercise every four years to assess the extent to which gender is integrated in their work. They are also required to develop a follow-up plan of action to address the identified gaps, set priorities and allocate resources for gender mainstreaming at divisional and office level.

202. We observed from the scrutiny of records of the Subregional Office Tunisia, Representations in Colombia, Ethiopia, Lebanon and Sudan, that the gender stocktaking exercise which was to be undertaken every four years was not undertaken. The non-conduct of the gender stocktaking exercise impacted the identification of gaps and allocation of resources to address the gaps. The offices accepted that the exercise was not done and stated that they would be carrying out the gender stocktaking soon.

203. We also observed that in the offices of Ethiopia, Lebanon, Mexico and Sudan, that 50 percent gender parity was not achieved. In Mexico office it was noticed that Gender parity was not available in all cadres, while in Lebanon, Ethiopia and Sudan it was noticed that the gender parity was not achieved and was found declining over a three-year period, from 41 percent to 19 percent in 2022. This impacted the achievement of the United Nations and FAO’s policy of gender equality. The offices accepted that gender parity was not achieved and stated that steps were being taken to address the issue.

Recommendation 23: A gender equality stocktaking exercise to be conducted at the earliest and to take appropriate measures for equitable gender representation in the FAO workforce.

204. The Management accepted the recommendation.
Asset Management

205. The FAO Asset Management manual provides for maintaining Asset registers, containing an organization wide list of assets that have met the requirements for inclusion. The Asset register should include a description of the item, value, location and other information. Knowing the physical location of each asset allows organizations to track their assets and reduces the risk of loss, theft, or misplacement. The Asset register for each Decentralized office and headquarters must be verified every year.

206. We reviewed the Asset register of FAO Country Offices of Regional Office for Latin America and the Caribbean (RLC), Colombia, Ethiopia, Mexico, Sudan and Venezuela and observed the following deficiencies:

i. The Venezuela Office did not maintain any asset register;

ii. In RLC and Colombia, physical verification of assets did not contain the checklist certification26 from the custodian of the assets;

iii. In RLC, Colombia, Ethiopia, Mexico and Sudan, the asset register did not contain the essential details of the assets like location, serial number, tag numbers etc.; and

iv. In RLC and Colombia, in some cases, the same assets appeared twice in the asset register.

207. The Management replied that they would update the location of the assets. In respect of missing serial numbers, Colombia office stated that the assets belonged to projects and there was delay in getting the serial numbers and updating the asset register. In respect of duplicate assets, Management stated that action was being taken to eliminate the duplicates.

208. We are of the opinion that the deficiencies in the asset register result from weaknesses in internal controls. Moreover, incorrect reporting could impact maintenance and availability of assets to the Organization.

Recommendation 24: Country Office asset registers to be regularly updated with all required information, and internal controls pertaining to collection of asset-related data, strengthened to ensure reliable and complete documentation.

209. The Management accepted the recommendation.

Performance Securities and Advance Payments

210. 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.

211. A review of the records relating to procurement orders issued by Mexico office for the period 2021-2022 brought out that 92 suppliers/contractors were given Purchase Orders amounting to USD 342,038. However, it was noticed that Performance Security/guarantees were not obtained in respect of any of the Purchase Orders.

212. The Procurement Authority may approve advance payments without a financial guarantee in situations when the availability of funding has been confirmed by the Budget Holder in certain cases such as generally accepted commercial terms, hotel bookings, transactions with other United Nations entities, transactions with government agencies, and any other exceptional circumstances.

213. Where the Buyer considers the advance payment to be the only effective means to undertake procurement and considers the associated risk to the Organization to be minimal, an advance payment for a maximum of 20 percent of the contract value, without a financial guarantee may be considered appropriate and can be approved by the Chief, Procurement Service (CSLP).

26 The Assets Responsible Officer shall certify that the assets as per the assets register are physically verified and that the asset register is complete and correct as on the date of signing.
214. We reviewed the advance payments made by the CO Mexico and observed that 17 payments (7 in 2021 and 10 in 2022) amounting to USD 431,033.57 were made without obtaining necessary guarantees. We further observed that out of these 17 cases, in 9 cases, 100 percent advance payments were made, as against the rules which authorize payment of advance up to 20 percent value only. Besides, performance security was also not obtained for these advances.

215. CO Mexico in its reply stated that some investigations are made prior to giving the advance, and promised to consider obtaining of performance security for future advance payments.

216. A Performance Security secures the financial interest of the entity during the performance of the contract and its maintenance period/Defects Liability Period (DLP). This also insures against loss to the organization, in the event of a decision to make advance payment to the vendor, to the extent permissible under the rules.

**Recommendation 25:** Performance securities to be obtained in all cases as per applicable regulations to secure the financial interest of the organization during the contracted and maintenance/Defects Liability Period.

**Recommendation 26:** Controls to be established to ensure that grant of advance payments to vendors are made strictly as per FAO guidelines.

217. The Management accepted the recommendations.

**Instances of Direct procurement**

218. FAO Procurement policy states that a competitive solicitation procedure is considered the standard to ensure a fair, transparent and efficient procurement process. Sufficient planning shall precede any procurement to allow the time required for a competitive selection. Exceptionally, when a competitive solicitation procedure is not possible nor would it efficiently and effectively meet the interests and objectives of the Organization, procurement may be undertaken without competition.

219. We noted that FAO’s total annual procurement of goods for the year 2022 was approximately USD 699 million. The below chart depicts the distribution of procurement by type of award.

![Procurement of Goods by FAO in 2022](image)

220. We observed that FAO had procured 15 percent of goods through Direct Procurement.  

221. Management while agreeing that Direct Procurement might have higher level of risks, stated that the procurement carried out was for emergencies and that there are overseeing Procurement Committees that ensure that these procurements are justified.

---

27 Procurement which may, under particular circumstances and subject to appropriate review and approval, be undertaken directly with a single vendor when a competitive solicitation process would not efficiently and effectively meet the interests and objectives of the Organization.
LPC (Local procurement Committee) and HQPC (Headquarters Procurement Committee) have the responsibility to review grounds/justifications for direct procurement, which are elaborated on the standard template for LPC/HQPC submission and which endorse it, if justified. These details are to be uploaded in GRMS. We noted that complete details concerning these direct procurements were not available in GRMS. We also could not find sufficient justifications in the documentation uploaded in GRMS for applying exceptional circumstances.

223. The LPC/HQPC submissions provide in a standardized manner all the necessary information for the relevant Committee to endorse the procurement process and as such is considered the most relevant supporting documentation to be uploaded in GRMS, prior to approval by Procurement Authority. The Management in its reply stated, that Management would instruct buyers to upload systematically the endorsed LPC/HQPC submission onto GRMS.

224. We observed that FAO Policy stipulates for each level of delegated authority, specific Procurement limits for Competitive Award and Exceptional Award. However, there was no separate permitted procurement limit defined for Direct Procurement. We observed that limits applied by Procurement Authorities for direct procurement were also the same as those for competitive award.

225. Management in its reply stated that Direct Procurement falls under “Exceptional Award” in the manual section; however, it is not explicitly stipulated in Appendix C1 and agreed to amend the Appendix.

**Recommendation 27:** FAO Management to further encourage competitive public procurement and take steps to reduce the use of exceptional awards/direct procurement while strictly ensuring documentation requirements in GRMS.

**Recommendation 28:** FAO to amend its Manual to specifically establish delegation of acceptable risk based procurement limits for Direct Procurement.

226. The Management accepted the recommendations.

**Internal Control**

227. 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.

**Cash Management**

228. The best practices require that a surprise cash count be conducted at least once a month. These surprise cash counts would give an assurance of the actual existence of the fund in the possession of the custodian concerned. It was observed that surprise cash checks were not being carried out with any specified frequency in RLC, Colombia and Ethiopia as there was no FAO regulation for a surprise cash count. The reply of the Management was awaited.

**Recommendation 29:** FAO to strengthen its internal controls related to surprise verification of cash counts.

229. The Management accepted the recommendation.

**Unmatched invoices**

230. 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 procurement cases bring out “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.
231. We observed that the Ethiopian office used unmatched invoices on 110 occasions, between 2020 and 2021 for amounts exceeding USD 1,000, with the highest unmatched procurement value being USD 22,850. The total value of these invoices amounted to USD 373,890. Unmatched invoices were also being used for recurring expenses on services throughout the year (e.g., Electricity & Water bills).

232. The Management replied that efforts were being made to ensure that procurement was made compliant with the rules.

**Recommendation 30:** Internal Controls to be strengthened in a time bound manner to ensure that no ineligible unmatched procurements are allowed.

233. The Management accepted the recommendation.

**Travel Management**

234. Travel Expense Claims are to be submitted within one month following the completion of the journey. Delay in submission of claims may result in the deduction of travel advances from the staff member’s salary. Further all staff members who are sent on duty travel should prepare and submit a Back-to-office Report (BTOR) within one week of completion of travel.

235. We reviewed the travel claims submitted and observed the following.

i. 364 travel claims amounting to USD 39,342 were submitted by the staff after one month of completion of journey in Colombia office. Also, delay in submission of BTORs was noticed in respect of 22 journeys in 2022.

ii. In Mexico office 6 travel claims were submitted in 2022, with delays ranging from 76 days to 161 days. BTORs report submission was delayed in respect of 49 journeys in 2022.

iii. In Ethiopia CO, 23 travel claims amounting to USD 16,062 were outstanding, with the delays ranging from 2 to 190 days.

236. The Colombia office stated that periodic follow up of outstanding balances or advances related to travel would be strengthened. Mexico and Ethiopia office accepted the observation. Ethiopia office further stated that some claims were delayed due to conflicts in the region, and that action would be taken to regulate the delays.

**Recommendation 31:** Travel claims to be regularly reviewed, and action taken to clear outstanding advances, in line with FAO rules.

**D. DISCLOSURES BY MANAGEMENT**

237. The terms of reference on External Audit require the disclosures of important information. In this connection, FAO Management provided disclosures in respect of cases of fraud and ex-gratia payments (Annexure 4).

**E. ACKNOWLEDGEMENT**

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

(Sd/-)

16 October 2023

Girish Chandra Murmu
Comptroller and Auditor General of India
Annexure 1: Changes made on the recommendations of audit

The following observations were accepted by management and necessary adjustment/disclosures were made in the financial statements:

(i) FAO recognized the multi-year contributions at net present value to reflect the fair value of the long-term receivables. Consequently, the revenue from assessed contribution decreased by USD 0.12 million and USD 0.05 million for 2022 and 2021 respectively, voluntary contribution decreased by USD 58.30 million and USD 15.77 million for 2022 and 2021 respectively.

(ii) Allowance for doubtful accounts under note 7 were revised as USD 5.75 million by providing additional Provision for doubtful VAT receivable for USD 3.40 million in the revised financial statements.

(iii) Plants and Seeds figures for 2021 under note 20.9 was restated as USD 49.67 million by deducting USD 0.31 million from earlier reported amount of USD 49.98 million.
## Annexure 2: VAT receivable outstanding

<table>
<thead>
<tr>
<th>Summary</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT Balance until year end 2019</td>
<td>6,895,819.02</td>
</tr>
<tr>
<td>Exclude FX revaluation 2019</td>
<td>893,929.22</td>
</tr>
<tr>
<td>Credits refunded between 2020-2021</td>
<td>4,990,185.77</td>
</tr>
<tr>
<td>Credits refunded between 2020-2021, linked with 2020-2021 expenses</td>
<td>1,854,755.60</td>
</tr>
<tr>
<td>Total Provisions</td>
<td>4,654,318.07</td>
</tr>
</tbody>
</table>
Annexure 3

(Shortcomings in ERP as per FAO ERP Roadmap Refresh study report dated 21 February 2021)

<table>
<thead>
<tr>
<th>S#</th>
<th>Section</th>
<th>Issue/shortcomings as mentioned in Marked section of the Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>3.1.3</td>
<td>The budget is not linked to other activities and their outcomes</td>
</tr>
<tr>
<td>2.</td>
<td>3.1.3</td>
<td>Two systems are currently in use: FPMIS and GRMS. The project appraisal cycle is managed in FPMIS, while expenditures are recorded in GRMS. The two systems do not integrate with one another, and therefore, results-based management is not possible within the current systems. A lot of manual intervention/offline work must be undertaken (e.g. developing ad-hoc Excel-based tools)</td>
</tr>
<tr>
<td>3.</td>
<td>3.1.3</td>
<td>Budget control module not implemented in the ERP. Project Budgets are calculated on Excel spreadsheets and analysed manually, with no budget definition in the system. Data necessary for planning the budget is not available and is calculated off-system.</td>
</tr>
<tr>
<td>4.</td>
<td>3.1.4</td>
<td>The Project to Delivery process is crucial for projects’ success, and therefore warrants significant attention and analysis. The conclusions drawn from the analysis indicate that little improvement has been made since the previous ERP Roadmap Study conducted in 2017.</td>
</tr>
<tr>
<td>5.</td>
<td>3.1.5</td>
<td>PROMYS initiative began a few years ago. The objective of implementing PROMYS is to bring together all the project-based resources from voluntary contributions and the assessed contributions from normal budget in order to improve the overall management of projects and programmes</td>
</tr>
<tr>
<td>6.</td>
<td>3.3.1</td>
<td>Due to the significant development of the SSC over the last few years, the increase in the decentralization policy has highlighted the need to strategically decide which functions will be centrally managed in order to improve efficiency and achieve a higher level of standardization.</td>
</tr>
<tr>
<td>7.</td>
<td>3.3.2</td>
<td>FAO wants to capitalize on the existence of a global SSC to realize economies of scale for low-value transactions wherever possible. The issue related to this activity is to find the right balance between which processes should be centralized through the SSC and which should remain at the country level.</td>
</tr>
<tr>
<td>8.</td>
<td>3.3.4</td>
<td>High level of system fragmentation of the large number of processes. Reduced data quality.</td>
</tr>
<tr>
<td>9.</td>
<td>3.3.4</td>
<td>Unclear policy ownership between CSL and CSF divisions regarding asset and inventory management (transfer of ownership from CSF to CSL currently under discussion).</td>
</tr>
<tr>
<td>10.</td>
<td>3.3.4</td>
<td>Support for cost allocation to operational divisions is under review by OSP to understand the new drivers and formulae - Limited agreement and visibility on support cost allocation model.</td>
</tr>
<tr>
<td>11.</td>
<td>3.3.4</td>
<td>SSC is not performing compliance activities at the moment for FAO’s end-to-end supply chain processes, and a compliance function is not currently in place.</td>
</tr>
<tr>
<td>12.</td>
<td>3.3.4</td>
<td>Centralization vs Decentralization: FAO has not yet identified which components need to be centralized in the SSC from a strategic point of view (e.g. contract management, PO management, etc.). – Impact: • Fragmented processes, and possible inefficiencies and inaccuracies. • Lack of functional ownership and processes best practices.</td>
</tr>
<tr>
<td>13.</td>
<td>3.3.4</td>
<td>The current GRMS is not fully compliant with policy requirements. Operational processes in the ERP can differ from FAO’s policies.</td>
</tr>
<tr>
<td>14.</td>
<td>3.3.4</td>
<td>Procurement workflow approval process not fully aligned to the Organization and not fully covered by the system.</td>
</tr>
<tr>
<td>15.</td>
<td>3.3.4</td>
<td>Lack of an integrated document repository / system across the S2P process – Impact – Reduced data quality and possible data losses.</td>
</tr>
<tr>
<td>16.</td>
<td>3.3.4</td>
<td>Procurement planning currently done offline and not integrated within the overall process.</td>
</tr>
<tr>
<td>17.</td>
<td>3.3.4</td>
<td>Vendor master data are managed through different sources (e.g. UNGM, spreadsheets, email, GRMS, etc.) with a resulting impact on data quality and process effectiveness. Vendor master data management is fragmented and unstructured (e.g. only about 20 percent of total vendor records are registered in UNGM).</td>
</tr>
<tr>
<td>S#</td>
<td>Section</td>
<td>Issue/shortcomings as mentioned in Marked section of the Report</td>
</tr>
<tr>
<td>----</td>
<td>---------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>18</td>
<td>3.3.4</td>
<td>Vendor master data should be better classified according to specific vendor types (e.g. cash beneficiaries vs others, such as LoAs).</td>
</tr>
<tr>
<td>19</td>
<td>3.3.4</td>
<td>The integration between UNGM and In-Tend is minimal and limited to the very preliminary data necessary for vendor management creation.</td>
</tr>
<tr>
<td>20</td>
<td>3.3.4</td>
<td>The downstream part of the sourcing process is completely manual, without any system support (although it follows FAO’s policies).</td>
</tr>
<tr>
<td>21</td>
<td>3.3.4</td>
<td>Contract management is not supported by any system, and thus requires intensive manual effort. – Impact – Negative impacts on the downstream procurement activities (e.g. receipts and invoicing).</td>
</tr>
<tr>
<td>22</td>
<td>3.3.4</td>
<td>The integration between UNGM and In-Tend is minimal and limited to the very preliminary data necessary for vendor management creation.</td>
</tr>
<tr>
<td>23</td>
<td>3.3.4</td>
<td>The downstream part of the sourcing process is completely manual, without any system support (although it follows FAO’s policies).</td>
</tr>
<tr>
<td>24</td>
<td>3.3.4</td>
<td>Purchase requisitions are created offline and not always tracked in ERP.</td>
</tr>
<tr>
<td>25</td>
<td>3.3.4</td>
<td>POs are often created before obtaining the vendor master data and having performed any supplier evaluation.</td>
</tr>
<tr>
<td>26</td>
<td>3.3.4</td>
<td>POs are mainly created for the financial commitment in order to generate the actual payments. There is only partial functional ownership defined for PO lifecycle management.</td>
</tr>
<tr>
<td>27</td>
<td>3.3.4</td>
<td>In various cases, goods receipts are not managed or are managed without reference to the actual receiving date.</td>
</tr>
<tr>
<td>28</td>
<td>3.3.4</td>
<td>The receiving process is not fully integrated with the upstream activities (e.g. ASN creation by supplier).</td>
</tr>
<tr>
<td>29</td>
<td>3.3.4</td>
<td>Invoice processing is mainly done manually (except LoAs invoices, which are automatically created).</td>
</tr>
<tr>
<td>30</td>
<td>3.3.4</td>
<td>Absence of both a corporate defined procedure and a tracking module in the corporate system for inventory management.</td>
</tr>
<tr>
<td>31</td>
<td>3.3.4</td>
<td>The fleet management function was only established one year ago. Therefore, currently there is neither a structured fleet management program nor accompanying systems.</td>
</tr>
<tr>
<td>32</td>
<td>3.3.4</td>
<td>There exists in FAO no self-booking tool. The rules governing travel booking are complex and multi-layered to the point where system configuration becomes challenging and extremely costly through standard solutions and tools. Impact – Increased system maintenance cost.</td>
</tr>
<tr>
<td>33</td>
<td>3.3.4</td>
<td>Logistics: Travel management is covered by a comprehensive system that accounts for most of the practices and procedures outlined in the policy. However, both fleet and inventory management have significant system and process gaps. The former lacks a structured system since it was only established as a function last year and it is still in the process of being set up. The latter is mainly characterized by the use of spreadsheets to cover most of the activities.</td>
</tr>
<tr>
<td>34</td>
<td>3.3.4</td>
<td>Procurement: the procurement process suffers from general efficiency and integrity issues caused, among other factors, by significant system fragmentation (e.g. UNGM, In-Tend, GRMS, spreadsheets), and the complete or partial (depending on the cases) lack of support in certain highly relevant process areas, such as procurement planning, downstream sourcing, procurement workflow approval, contract management, and document repository.</td>
</tr>
<tr>
<td>35</td>
<td>3.3.4</td>
<td>Contracts management: the contracts management process is not currently supported by any system. All activities are carried out offline and require intensive manual inputs.</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>S#</th>
<th>Section</th>
<th>Issue/shortcomings as mentioned in Marked section of the Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>3.3.4</td>
<td>The Vendor Management area, including vendor registration and vendor master data management processes, would benefit from various future enhancements, as the processes are still supported on different systems which are not fully integrated. Consequently, this requires increased effort to ensure that master data is both consistent and updated. Additionally, FAO is still evaluating whether to introduce iSupplier as an external portal, which could provide many benefits in terms of improving supplier relationship management and enhancing data communication between different actors in the procurement process. - The Sourcing process still has several points for improvement, as only the upstream phase has been covered by the In-Tend tool, thus leaving the remaining parts such as negotiation and awarding neither supported nor tracked through the system functionalities. Contract management and LoAs require more attention in terms of process definition and system capability in order to fully respond with an integrated approach to the policy and business requirements.</td>
</tr>
<tr>
<td>38</td>
<td>3.3.4</td>
<td>Within the current ERP ecosystem, the lack of different project reporting mechanisms prevents reporting both across and within single resource partner funded projects.</td>
</tr>
<tr>
<td>39</td>
<td>3.3.4</td>
<td>The year-end closing process still requires many manual workarounds in the Finance and Accounting management processes. Impact: • Manual time-consuming activities continue to be necessary. • Increased risk of error due to manual workarounds.</td>
</tr>
<tr>
<td>40</td>
<td>3.3.4</td>
<td>There is no real time recording of inventory assets within the inventory management process/system. Inventory recording is done at the year-end based on physical stocktaking.</td>
</tr>
<tr>
<td>41</td>
<td>3.3.4</td>
<td>Insufficient level of granularity when reporting on project expenditures.</td>
</tr>
<tr>
<td>42</td>
<td>3.3.4</td>
<td>The ERP does not support timely recording of asset disposal and transfer, hence increases the risk of errors.</td>
</tr>
<tr>
<td>43</td>
<td>3.3.4</td>
<td>Financial Reporting is partially carried out on-system, with Trial Balances etc. being generated automatically, but the final preparation of the published accounts takes place offline.</td>
</tr>
<tr>
<td>44</td>
<td>3.3.4</td>
<td>Finance does not currently have responsibility for more widespread management reporting or decision-making in terms of the deployment of financial resources.</td>
</tr>
</tbody>
</table>
Disclosures by FAO Management on ex-gratia payments and cases of fraud and presumptive fraud

A. Ex-gratia payments in 2022

FAO South Sudan – USD 172,455.31 to various suppliers to cover MEDEVAC invoices and in-hospital care for injured individuals.

Europe Assistance France SA – supplier 245314 – USD 43,884.34 - for the medical evacuation for two National Project Personnel (NPP).

FAO Azerbaijan – USD 10,155.63 to third parties to cover costs related to car accident involving a FAO official vehicle in Azerbaijan; Partial or full indemnification is expected for expenditure incurred in 2021-2022. The claim under the corporate insurance policy for Third Party Liability is in final stages of settlement process with the insurer.

B. Cases under review in 2020

Case 1. (Previously reported as Case 1 in the 2022 letter) 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). The Procurement Service (CSLP) has completed the sanctions procedure process. The sanction of a three-year debarment was imposed on the vendor on 11 February 2022. The case is closed.

Case 2. (Previously reported as Case 2 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process. The sanction of a five-year debarment was imposed on the vendor on 11 February 2022. The case is closed.

Case 3. (Previously reported as Case 4 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process imposing indefinite debarment on the vendor. The case is closed.

Case 4. (Previously reported as Case 5 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process imposing indefinite debarment on the vendor. The case is closed.

Case 5. (Previously reported as Case 6 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process imposing indefinite debarment on the vendor. The case is closed.

C. Cases under review in 2021

Case 6. (Previously reported as Case 14 in the 2022 letter) 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 and a note was placed in the personnel file. OIG identified insufficient evidence to conclude that the NGO had engaged in sanctionable conduct. The case is closed.

Case 7. (Previously reported as Case 16 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process. The sanction of a three-year debarment was imposed on the vendor on 29 June 2022. The case is closed.

Case 8. (Previously reported as Case 17 in the 2022 letter) 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 flight. The disciplinary measure of one-week suspension without pay was imposed upon the staff member. The case is closed.

Case 9. (Previously reported as Case 19 in the 2022 letter) 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. The Procurement Service (CSLP) has completed the sanctions procedure process. The sanction of a two-year debarment was issued on 22 March 2022. The matter is now closed.

Case 10. (Previously reported as Case 20 in the 2022 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 flight. The disciplinary measure of one-week suspension without pay was imposed upon the staff member. The case is closed.

Case 11. (Previously reported as Case 21 in the 2022 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 flight. The disciplinary measure of one-week suspension without pay was imposed upon the staff member. The case is closed.

D. Cases under review in 2022

Case 12. (Previously reported as Case 23 in the 2022 letter) 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 13 below). OIG requested and the VSC issued a Temporary Suspension to both companies. The investigation is ongoing.

Case 13. (Previously reported as Case 24 in the 2022 letter) 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 14 below) and that the same vendor submitted fraudulent documentation in connection with a different bid for farm equipment (see case 12 above and case 14 below). OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 14. (Previously reported as Case 25 in the 2022 letter) OIG conducted an investigation into allegations that an FAO vendor colluded with another vendor (see case 13 above) in the preparation of its bid for the supply of agricultural inputs. At the end of its review, OIG determined that the evidence was insufficient to substantiate the allegations. The matter is now closed.

Case 15. (Previously reported as Case 26 in the 2022 letter) 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 22 below). OIG requested and the VSC issued a Temporary Suspension for the vendor in question. The investigation is ongoing.

Case 16. (Previously reported as Case 27 in the 2022 letter) OIG conducted an investigation and found that an FAO vendor submitted fraudulent documentation as part of its bid for the supply of agricultural inputs. The matter was submitted to the VSC which issued a Notice of Sanctions Proceedings on 13 February 2023. The matter is pending completion of the Sanctions Proceedings.

Case 17. (Previously reported as Case 28 in the 2022 letter) 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 18-25-26-27 below), and with whom the FAO personnel had close family relationships. This investigation is ongoing.

Case 18. (Previously reported as Case 29 in the 2022 letter) OIG conducted an investigation and while it did not find that an FAO vendor colluded with a member of FAO personnel (see case 17 above) in the preparation of its bids for promotional materials, the investigation concluded that the vendor violated its obligations under the UN supplier code of conduct. The matter was submitted to the VSC which issued a Notice of Sanctions Proceedings on 13 February 2023. The matter is pending completion of the Sanctions Proceedings.

Case 19. (Previously reported as Case 30 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with another vendor (see case 20 below) in the preparation of its bid for the construction of multipurpose centres. The investigation is ongoing.

Case 20. (Previously reported as Case 31 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with another vendor (see case 19 above) in the preparation of its bid for the construction of multipurpose centres. The investigation is ongoing.

Case 21. (Previously reported as Case 32 in the 2022 letter) 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 22. (Previously reported as Case 33 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with another FAO vendor (see case 15 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 23. (Previously reported as Case 34 in the 2022 letter) OIG conducted an investigation and found that a staff member submitted a false declaration in relation to rental subsidy amounting to approximately EUR 7,400 in undue payments to the staff member. The disciplinary proceedings are ongoing. The disciplinary measure of dismissal for misconduct was imposed on the staff member.

Case 24. (Previously reported as Case 35 in the 2022 letter) OIG conducted an investigation and found 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 also found 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. The staff member’s contract with the Organization was terminated on disciplinary grounds and the amount of EUR 1,346 was recovered. The case is closed.

Case 25. (Previously reported as Case 36 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 17 above) in the preparation of its bids for promotional materials. The investigation is ongoing.
Case 26. (Previously reported as Case 37 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 17 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 27. (Previously reported as Case 38 in the 2022 letter) OIG is investigating allegations that an FAO vendor colluded with a member of FAO personnel (see case 17 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 28. OIG conducted an investigation and found that a staff member used their position with the Organization to fraudulently represent that they were entitled to an exemption to otherwise applicable taxes when purchasing goods and services from vendors at the duty station. The disciplinary proceedings are ongoing. The disciplinary measure of dismissal for misconduct was imposed on the staff member.

Case 29. OIG conducted an investigation and found that a staff member through their inaction had allowed personnel under their supervision to create a false document to be used in connection with an insurance claim to be made on behalf of the Organization (case 30 refers). The disciplinary measure of suspension without pay for one week was proposed; however, the staff member separated from the Organization before it could become effective. A note was placed in the staff member’s personnel file. The case is closed.

Case 30. OIG conducted an investigation and found that a staff member had created a false document to be used in connection with an insurance claim to be made on behalf of the Organization (case 29 refers). Disciplinary proceedings are ongoing. The disciplinary measure of suspension without pay for one week was imposed on the staff member.

Case 31. OIG conducted an investigation and found that seven vendors colluded amongst themselves to misrepresent that their bids were independent of the other bids and therefore competitive, in order to improperly influence the outcome of the evaluation for award. The matters were submitted to the VSC on 24 January, 3 and 8 February 2023, which issued Notices of Sanctions Proceedings on 13 February 2023. The matter is pending completion of the Sanctions Proceedings.

E. Ongoing matters of presumptive fraud as of February 2023

Case 32. OIG is investigating allegations that a staff member assisted another staff member in fraudulently representing that they were entitled to an exemption to otherwise applicable taxes when purchasing goods and services from vendors at the duty station.

Case 33. OIG is investigating allegations that a former staff member submitted fraudulent supporting documentation in connection with requests for education grants to receive inflated amounts.