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联合国粮食及农业组织 Food and Agriculture Organization of the United Nations Organisation des Nations Unies pour l'alimentation et l'agriculture Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

CONFERENCE

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Audited Accounts - FAO 2020 Part B - Report of the External Auditor

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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

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Report of the External Auditor on the Food and Agriculture Organization (FAO) of the United Nations for the Financial Year ended 31 December 2020

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EXECUTIVE SUMMARY

Introduction

Report of the External Auditor

1. The report is being issued on the results of the audit of the financial statements and operations of Food and Agriculture Organization (FAO) for the financial year ended 31 December 2020 pursuant to Financial Regulations 12.1 to 12.10 of FAO and the Additional Terms of Reference governing External Audit appended thereto.
2. This is the first audit report to the FAO Conference by the Comptroller and Auditor General of India, under our mandate as External Auditor of FAO from 2020 to 2025.
3. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to Member States, to help increase transparency and accountability in the Organization, and to support the Organization's work through the external audit process.

Overall Results of Audit

4. 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).
5. We concluded that the financial statements present fairly, in all material respects, the financial position of FAO for the financial year ended 31 December 2020, and its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts are in accordance with the International Public Sector Accounting Standards (IPSAS). Based on our conclusion, we issued an unqualified audit opinion on the Organization's financial statements for the financial year ended 31 December 2020. In light of the challenges faced due to the COVID-19 pandemic, we acknowledge the concerted efforts of the FAO Management and staff towards ensuring compliance with IPSAS.
6. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of the FAO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements were, in all significant respects, compliant with the Financial Regulations and legislative authority of the FAO.
7. We, however, identified important issues that need to be addressed by Management to further improve recording and reporting of financial management. The report includes audit observations on the financial management of the Organization for the period ending December 2020.
8. In addition to audit of financial statements and compliance audit at FAO Headquarters, Regional Office for North Africa and Near East at Cairo, Sub-Regional Office for Southern Africa at Harare and six FAO Representations (FAORs) at Cameroon, Iraq, Malawi, Pakistan, Syria and Zimbabwe were

audited during this audit cycle. These audits covered selected management issues as well as compliance and regularity aspects.

9. Performance reviews of the working of the Organization in respect of the Regional Initiative for Ending Hunger in Africa by 2025 and Planning, Monitoring and Evaluation of Projects were also carried out. The results of the audit on these areas and offices were communicated to FAO management through management letters and Management responses are incorporated in this report.

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

11. All the audits were carried out remotely from India owing to travel and related restrictions following the COVID-19 outbreak. While the remote auditing approach presented its own challenges and resulted in additional effort by both the FAO Management and our audit teams, we have been able to obtain sufficient appropriate evidence to support our audit opinion. Given the constraints, this is a significant achievement and reflects the hard work of the FAO management and staff in difficult circumstances.

Key Audit Findings

Financial and Compliance Audit of FAO Headquarters

Unfunded Employee Benefits Obligations

12. Employee Benefits Obligations (EBOs) constituted 71.33 percent of the total liabilities of FAO at the end of the year 2020. Post retirement employee benefit obligations consisting of After Service Medical Coverage, Terminal Payment Fund (TPF), Separation Payment Scheme (SPS) and Compensation Plan Fund (CPF) accounted for 98.28 percent of the total employee benefits obligations. FAO's plan assets are sufficient to cover only 42.65 percent of EBOs, leaving the balance 57.35 percent unfunded. While SPS and CPF are fully funded, After Service Medical Coverage (ASMC) is partially funded and TPF is not funded at all.

Capitalization of Assets

13. The capitalisation threshold of FAO is USD 1,500 is at variance with that prescribed by the UN IPSAS Policy Framework which defines that the property, plant and equipment capitalization threshold as USD 20,000 for the United Nations and United Nations Peacekeeping Operations. All other Secretariat reporting entities have the option of adopting either USD 20,000 or USD 5,000 threshold depending upon the size of their operations. Adoption of lower threshold for capitalization results in

[1]**Fundamental**: Action is considered imperative to ensure that the Organization is not exposed to high risks. Failure to take action could result in serious financial consequences and major operational disruptions.
Significant: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in financial consequences and operational disruptions.
Merits Attention: Action is considered desirable and should result in enhanced control or better value for money.

understatement of expenses and overstatement of assets and ultimately in depiction of differing financial position and financial performance by FAO within the UN system.

Fully Depreciated Assets

14. FAO has not reassessed the useful life of assets. The IPSAS ledger has 6340 items out of which 3,837 items (60.52 percent) valued at USD 56.67 million are fully depreciated but were retained in use as of 31 December 2020. Fully depreciated assets account for 50.16 percent of historical value of Property, Plant and Equipment (PPE). Thus, PPE of FAO has not been stated at their fair value and need to be revaluated.

15. The estimated useful life of PPE adopted by FAO is at variance with that of the United Nations IPSAS policy framework. This has resulted in charging of depreciation different from UN system and depiction of different carrying value of assets by FAO within the UN system.

Governance Issues

16. Number of new complaints received has been showing an increase each year. In 2020, number of new cases went up by 40.4 percent compared to 8.04 percent in 2019.

17. 480 recommendations of Office of Inspector General (OIG) which had been accepted by Management for implementation were pending as on 31 December 2020. There were multiple revisions in the target dates of implementation in a large number of recommendations. The period between the initial implementation date and the latest revised date ranged from 2 weeks to 92 months, with an average of 17 months.

Control environment in Regional and Country Offices

18. There is need to ensure that vacancies of functionally important posts are filled on time for securing the continued availability of the requisite technical capabilities as well as skill-mix to ensure effective delivery of the Organization's programmes and activities. Internal control gaps were noted in regional and country offices with regard to asset management, travel management, project management, procurement management, cash management and recruitment of Non-Staff Human Resources.

Performance Review on Regional Initiative for Ending Hunger in Africa by 2025

19. FAO's Strategic Objective 1 *'Contribute to the eradication of hunger, food insecurity and malnutrition'* (SO1) and the *'Regional Initiative to End Hunger in Africa by 2025'* (RI) overlap in the Africa Region. The objective of mainstreaming of Zero Hunger in FAO's work at country and regional levels was impeded as delivery[2] of projects aligned to SO1 accounted for only 7.32 percent of total

[2] The term *'delivery'* refers to *'actual expenditure plus commitments'*

budget of projects running in African Region during the years 2014 to 2020, and only 17.79 percent of total budget of projects under operation in the eight[3] focus countries.

20. The RI aimed to rapidly achieve specific performance targets related to hunger such as reducing hunger by 40 percent by 2017 in the countries of full implementation of the partnership's approach; improving access to food all year round, reducing the need for external food aid within 10 years; prioritizing the need to defeat stunting, especially in children of under 2 years, and nutrition of pregnant women and early childhood; doubling the productivity of staples within 5-10 years, without compromising the environmental sustainability of farming systems; and achieving food waste levels no worse than global averages, with ambitions to further minimize them rapidly. However, performance evaluation of the above objectives is yet to be conducted to document progress towards these targets.

21. Detailed examination of seven projects aligned to the RI indicated a need for strengthening delivery mechanisms for ensuring effective project implementation and monitoring and for ensuring desired progress towards achieving zero hunger in Africa.

Performance Review on Project Planning, Monitoring and Evaluation

22. Corporate monitoring of project management needs to be strengthened. At present, project implementation and monitoring of a large number of critical activities is largely left to budget holders[4], with little corporate oversight. Monitoring tools available on Field Programme Management Information System (FPMIS) are not being optimally used, with crucial activities like monitoring work plan and achievement of milestones vis-à-vis targets, being done offline.

23. Corporate management is not periodically updated on the status of implementation of a substantial number of projects across the world through progress reports either due to absence of a system of reporting, or due to reports not being uploaded on FPMIS. There are delays in project implementation, resulting in project end dates getting extended and delays in project closure as well.

24. There is need to establish a mechanism for institutionalizing lessons learnt from project experience and referring to past evaluation reports while planning similar projects to ensure that risks are identified in advance and better managed.

25. There are more than 2000 small projects, with budgets below USD 4,000,000 that are not subject to separate evaluations as per extant policy, but are covered either under country programme evaluations or thematic evaluations, subject to availability of resources with Office of Evaluation. A large number of such smaller projects have remained unevaluated with the result that corporate management may not be aware of the outcomes of these projects and lessons learnt therefrom.

[3] Angola, Chad, Ethiopia, Ghana, Kenya, Malawi, the Niger and Rwanda.

[4] A person who has been designated the responsibility for managing an area of work, including the related budget, for the agreed-upon results.

Audit Recommendations

26. On the basis of our findings, we have made the following recommendations that will contribute to better management, enhance transparency and improve efficiency of operations**:**

	Recommendations	Priority	Timeline
	Financial Matters		
1	***Besides effectively pursuing additional assessments on Member Nations to bridge the funding gap in ASMC and TPF, FAO may explore alternatives as suggested by the UN ASHI Working Group, participate in UN Common System's search for a solution and prepare long term strategy to bridge the gap in funding of ASMC and TPF.***	***Fundamental***	***2022***
2	***FAO may comply with the requirements of IPSAS 24 and accordingly provide (i) suitable explanation of the differences for each level of oversight by governing bodies, and (ii) if such explanation is included in other public documents issued in conjunction with the financial statements and are so cross referenced, then these need to be internally consistent.***	***Fundamental***	***2021***
3	***Monitoring of supplier related advances (mainly Vendor Advances) may be strengthened and a time bound strategy for settling supplier related advances may be framed.***	***Fundamental***	***2021***
4	***FAO may review the threshold for capitalization of its property, plant and equipment.***	***Significant***	***2021***
5	***FAO may reassess the useful life of its assets to reflect fair presentation as per IPSAS and to ascertain reasonable estimate of useful life of assets for their further utilization or disposal.***	***Fundamental***	***2021***
6	***FAO may assess the recoverability of old outstanding assessed contributions, take action as per Financial rules and Regulations and seek approval of the Conference to write off the irrecoverable assessed contributions.***	***Fundamental***	***2021***
7	***FAO may, after assessing possibility of recovery on a case by case basis of the old outstanding receivables other than GCCC, consider write off of irrecoverable amounts on a periodic basis.***	***Fundamental***	***2021***
8	***FAO may ensure compliance to IPSAS 12. Priority may be accorded to time-bound implementation of GIMS with inclusion of best inventory management practices in the module.***	***Significant***	***2022***

9	***FAO may work out VaR of all the investment portfolios and disclose the same with all parameters, assumptions, data and method in its financial statements, as per IPSAS-30, for better understanding of financial risk.***	***Significant***	***2021***
	Compliance Audit at FAO Headquarters		
10	***Uploading of documents in GRMS relating to procurement may be ensured to facilitate proper evaluation and monitoring of the procurement process and also to enhance transparency. It is also recommended to ensure that actual delivery dates of goods are entered in GRMS to facilitate evaluation of vendor performance.***	***Significant***	***To be decided in view of pending internal review by FAO***
11	***An effective monitoring and follow-up mechanism on outstanding travel advances may be put in place for compliance of the stipulated timelines for settlement, with particular emphasis on old cases. It may be ensured that correct and updated data of outstanding advances is maintained by removing transactions that are already adjusted from the database.***	***Significant***	***As part of ongoing work***
12	***Management may introduce service level agreements with clearly defined performance indicators into the new contracts of concessionaires in order to bolster the contractual framework.***	***Merits attention***	***2021***
13	***FAO may work out VaR on all the investment portfolios in order to assess the potential loss on the entire investment portfolio and also consider raising the confidence level for better risk monitoring.***	***Significant***	***2021***
14	***In light of the nature of complaint cases, FAO may examine if any systemic improvements are required in the Organization. It may consider providing Office of Inspector General (OIG) with adequate resources to address the increasing numbers of complaints.***	***Significant***	***As part of ongoing work***
15	***FAO may continue to review the pending accepted actions on recommendations periodically at an appropriate level and implement these in a time bound manner.***	***Merits Attention***	***As part of ongoing work***

	Audit Findings of Field Offices		
16	***Project implementation may be improved through better risk assessment and planning for ensuring timely completion of projects. It may be ensured that operational and financial closure of projects are effected within the prescribed timelines.***	***Significant***	***As part of ongoing work***
17	***Process owners may be sensitised about ownership of data and the need to ensure accuracy of data/information on the system.***	***Significant***	***2022***
18	***A system of quarterly review of annual procurement plans be introduced in field offices to facilitate evaluation of progress of procurement against planned milestones. Procurement plans may be updated to ensure that it remains a live document reflecting changing procurement requirements. Project teams may be alerted on the importance of timely submission of procurement plans.***	***Merits Attention***	***2022***
19	***A review may be carried out of all cases where actual quantity received was short of net ordered quantity. GRMS may be updated to reflect the correct position wherever quantity ordered has undergone a change post ordering.***	***Significant***	***2022***
20	***FAO may ensure that information on GRMS regarding amount invoiced is aligned to quantity received and not to quantity ordered in all cases, for ensuring correctness of information, and also for providing an added checkpoint for ensuring correctness of payments.***	***Significant***	***2022***
21	***All open Purchase Orders where due dates of delivery have been exceeded may be reviewed and liquidated damages may be imposed wherever applicable.***	***Significant***	***2022***
22	***Services received may also be updated in GRMS immediately on receipt of certification from contract manager and prior to release of payment for ensuring that end-to-end position of procurement action in respect of services is reflected in the system.***	***Merits Attention***	***2022***
23	***Where acquisitions are not required to have corresponding PR numbers, the field of PR number may be populated with information like "Not applicable", "Not required", etc. instead of leaving it unpopulated, to provide an assurance that the prescribed workflow has been complied with.***	***Merits Attention***	***2022***

24	***Security instruments may be consistently obtained from vendors and documented in high value procurements to secure the interests of the Organization.***	***Merits Attention***	***2022***
25	***FAO to strengthen internal controls for ensuring greater accountability and better compliance to embedded control procedures for safeguarding FAO assets and property, ensuring accuracy in reporting on status of internal control, and for ensuring correctness of payments to consultants, suppliers and service providers.***	***Significant***	***As part of ongoing work***
26	***Replenishment of petty cash may be done timely and unannounced cash counts be conducted every month to check the existence of cash in the possession of the custodian at any point of time. Authorized amount of Petty Cash in decentralized offices may be reviewed based on utilization.***	***Significant***	***2022***
27	***The established policy on settlement of advances and the eventual recovery after default must be followed stringently and periodic monitoring of travel and other prepayments may be carried out.***	***Merits Attention***	***As part of ongoing work***
28	***There should be sustained efforts at filling up vacant positions in a competitive and time-bound manner, while ensuring transparency in the process of selection. Training plans may be prepared based on identification of skill gaps and training needs; a system of evaluating impact of training may be instituted.***	***Significant***	***2022*** ***2023***
	Management Matters		
	Performance Review on Regional Initiative to End Hunger in Africa by 2025		
29	***FAO may consider: (a) devising a suitable quantitative metric in regard to the 'mainstreaming of zero hunger', in the context of its commitment to 'Mainstreaming of Zero Hunger in FAO's work at country and regional levels' (b) suitably reviewing the ratio of projects, contributing to the 'mainstreaming of zero hunger', in the overall portfolio of projects, which are operational in the African Region, as well as in the focus countries, in the context of the metric so devised (c) the Organization may direct resource mobilization efforts towards projects that contribute to mainstreaming hunger in its work at Country and Regional levels; and (d) consider ways of***	***Significant***	***2023***

	enhancing policy approaches to position itself better for bringing in desired changes at policy level.		
30	*FAO may review the targets and indicators for assessing the contribution of results in the Africa region to FAO corporate output targets, for ensuring that its performance vis-à-vis these targets better reflect overall progress in achievement of outcomes under SO1 and the food security outcomes in the Africa region, in the context of its global goal of 'reduction of the absolute number of people suffering from hunger' (linked to RI).*	*Significant*	*2023*
31	*The Organization may strengthen the process of consolidated stock-taking/assessment of its projects, relating to hunger eradication efforts, which have been in operation in the focus countries, during the period 2014 to 2020, in order to identify gaps and define priorities in this regard, for the remaining period of this Regional Initiative, as well as for assessing the impact and outcome of these projects.*	*Significant*	*2022*
32	*The Organization may consider the feasibility of creating a dedicated functionality/link, within any of its existing ERP systems, for monitoring, evaluation and reporting of programmes and projects, related to the 'Regional Initiative to End Hunger in Africa by 2025', to enable access to consolidated and ready information in regard to the RI, to various internal stakeholders.*	*Merits Attention*	*2022*
33	*FAO may improve delivery of projects under the Regional Initiative for ensuring that project outcomes are achieved in a time-bound manner.*	*Fundamental*	*As part of ongoing work*
	Performance Review on Project Planning, Monitoring and Evaluation		
34	*FAO may review the list of Special Attention Countries for taking up TCPs, and direct resource mobilisation efforts for taking up greater number of Trust Fund projects in disadvantaged countries.*	*Significant*	*2023*
35	*FAO may monitor the formulation of Country Programming Framework (CPF) where the CPFs have either not been formulated or have expired. It may also be ensured that CPFs are evaluated with reference to the priorities envisaged by the respective countries.*	*Significant*	*As part of ongoing work*

36	***FAO may strengthen the FPMIS tool "FPSN pipeline monitoring" to ensure yearly monitoring and review of pipeline projects and improve guidance on pipeline management by requesting project formulators and Budget Holders to review and update pipeline projects status in regular intervals for ensuring that these projects are still under active formulation.***	***Significant***	***As part of ongoing work***
37	***(a) The new system PROMYS that is targeted to be rolled out by end 2022, has the functionality for uploading LFM and Work Plans.*** ***(b)The LFM and Work Plans may be redesigned to make them user friendly without compromising on the information/content required for efficient project monitoring.*** ***(c) Insertion of LFM and Work Plan in the ERP should be made mandatory for projects above USD 500,000 to enhance accountability and improve monitoring.***	***Significant***	***2023***
38	***(a) Corporate monitoring of performance of the BHs be strengthened for ensuring that project deliveries are within the approved/ revised budget and cash received and there is timely adjustment of unspent cash balances; and*** ***(b) Validation checks should be embedded in the ERP to disallow project deliveries to exceed the budget and cash received (with exceptions for cases that are governed by specific funding arrangements as in cases of USAID and EU funded projects).***	***Significant***	***2023***
39	***FAO may*** ***(a) Incorporate a validation check in ERP whereby FLOs would be required to certify on the system that reallocations are as per funding agreement and has the approval of donors*** ***(b) Establish a threshold beyond which reallocations between budget lines would require corporate monitoring and approval.***	***Significant***	***2023***
40	***To enhance the effectiveness of FPSN monitoring and ensure timely remedial action from an operational perspective-*** ***(a) The upcoming ERP may have the provision to link delivery/ expenditure with budget instead of with cash received, for correctly flagging low delivery projects.*** ***(b)The stipulation of the project remaining in the defined condition for 30 days may also be reviewed.*** ***(c) All projects, excluding those for which last tranche of fund is to be received after its completion, may be flagged for priority***	***Significant***	***2022***

	action as soon as expenditure exceeds 80 percent of cash received.		
41	***FAO may consider evolving an enhanced monitoring mechanism to reduce the time lag between approval date and the actual commencement of projects.***	***Significant***	***2023***
42	***Appropriate risk-analysis regarding project implementation be undertaken and specialized trainings on Project Cycle to field personnel be imparted for improving coordination with host governments and donors.***	***Significant***	***2022***
43	***FAO may ensure that a robust module for monitoring achievement of milestones vis-à-vis targets be incorporated in PROMYS for facilitating corporate monitoring of project implementation.***	***Significant***	***2023***
44	***(a) An active monitoring framework may be established at corporate level to ensure timely operational and financial closure of projects.*** ***(b) The main reasons for delays be regularly analysed and reported.*** ***(c) It may be ensured that PROMYS has adequate MIS features for facilitating periodic review of project closure by focal points in Headquarters and by senior management.***	***Significant***	***2023***
45	***FAO May:*** ***(a) Strengthen corporate monitoring of submission of Progress Reports to ensure that projects are progressing as envisaged*** ***(b) Ensure uploading of progress reports in the new ERP, PROMYS be made mandatory.*** ***(c) Incorporate MIS feature in PROMYS for generating periodic reports on status of submission of progress reports by Budget Holders. A framework of monitoring by Corporate Management may be instituted for carrying out periodic review of progress of projects.***	***Significant***	***2023***
46	***The due date of submission of terminal reports as per funding agreements should mandatorily be entered on the ERP for each project and should form part of basic information required to be entered prior to commencement of project activities. There should be active monitoring of submission of terminal reports as stipulated in the extant instructions related to project closure.***	***Significant***	***2023***

47	***(a) Better compliance to the criteria set for mid-term evaluation, separate final evaluation and submission of management response may be ensured.*** ***(b) An institutional mechanism for documenting and archiving lessons learned from completed projects, based on evaluation reports, may be introduced for facilitating this information to be used in future programming decisions.*** ***(c) As the organization undertakes large number of projects below USD 4,000,000, a suitable mechanism may be devised for undertaking their evaluation/ impact assessment. We recommend and Management agreed that all project managers may be encouraged to enhance their M&E system and undertake impact assessments, for enhanced learning and result-based management.***	***Merits attention*** ***Significant*** ***Significant***	***As part of ongoing work*** ***To be decided based on FAO's internal consultation*** ***2022***
48	***The provision for reporting status of implementation of the actions to be taken in response to OED's observations and recommendations may be incorporated in PROMYS. Corporate monitoring of follow-up action on recommendations/issues highlighted in evaluation reports may be strengthened.***	***Merits attention***	***2023***

MANDATE, SCOPE AND METHODOLOGY

Mandate

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

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

29. This is the first year of our new audit mandate and the first 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 2020, 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 2020 in accordance with IPSAS;

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

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

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

33. During the financial year 2020, apart from the audit of the financial statements at headquarters, we audited the Regional Office for North Africa and Near East (RNE) at Cairo, Sub-Regional Office for Southern Africa (SFS) at Zimbabwe and six FAO Representations (FAORs) at Cameroon (FRCMR), Iraq (FNIRQ), Malawi (FRMLW), Pakistan (FAPAK), Syria (FNSYR) and Zimbabwe (FRZIM).

Performance reviews of the working of the Organization in respect of the Regional Initiative for Ending Hunger in Africa by 2025 and Planning, Monitoring and Evaluation of Projects were carried out.

34. We audited the financial statements of the FAO Credit Union for the financial year 2020 and issued a separate report. Further, we reviewed and certified the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely the United Nations Development Programme (UNDP) and the Global Environment Facility (GEF).

35. All the audits were carried out remotely from India owing to travel and related restrictions following the coronavirus disease (COVID-19) outbreak.

Methodology and auditor's responsibilities

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

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

38. We also reviewed the effectiveness of management controls in key areas of operations, risk management, operations of selected decentralized offices with a focus on project implementation, procurement management, asset management, travel management and internal control environment in line with Financial Regulation 12.4.

39. 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 Audit Committee to further enhance our audit work.

40. We reported the audit results to FAO Management in the form of management letters which contain detailed observations and recommendations. We issued 11 audit management letters to the FAO heads of Divisions and Heads of Decentralised Offices during the financial year 2020. The practice provides for a continuing engagement with the FAO management.

AUDIT FINDINGS AND RECOMMENDATIONS

Follow-up of previous external audit recommendations

41. 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 furnished by Management at the time of the audit for the financial year 2020 is presented in the following table. A separate document will be presented to the 188th Session of the Finance Committee with an updated status of recommendations:

Table 1

External Audit Report	Total Recommendations	Outstanding as per External Audit Report 2019	Implemented since Last Report	Outstanding as on 18 May 2021
2014	26	1	1	0
2016	19	1	1	0
2017	29	5	2	3
2018	41	18	10	8
2019	42	42	10	32
Total	**157**	**67**	**24**	**43**

Source: Information provided by FAO

42. Table 1 shows that out of 42 recommendations made by external auditor during audit of the financial year 2019, 10 (24 percent) have been implemented and the remaining 32 are in the process of implementation. The timeline set by the external auditor for these recommendations is 2021.

43. During the year 2020, 10 out of 18 and two out of five pending recommendations pertaining to External Audit Report 2018 and 2017 respectively were implemented. Audit appreciates that there is no pendency of recommendations for period prior to 2017 and encourages FAO to expedite the pace of implementation of recommendations pertaining to 2017 and 2018. Significant recommendations relating to financial matters regarding Voluntary Contribution (one recommendation of 2017) and Shared Service Centre (three recommendations of 2018) were still under implementation though the suggested timelines for these were 2018 and 2019-20 respectively. Similarly, recommendations relating to Governance matters (two for the year 2017 and four for the year 2018) are yet to be implemented though the suggested timelines were 2018 and 2019-20 respectively.

RESULTS OF AUDIT

44. This section presents the results of the audit for the financial year 2020, which covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Governing Bodies. To ensure balanced reporting and to co-develop solutions, we afforded FAO Management the opportunity to respond to our audit observations and recommendations. The recommendations provided to Management are designed to support the objectives of FAO's mandate, to reinforce accountability and transparency, and to improve FAO's financial management and governance.

A. FINANCIAL AUDIT

1. Financial Overview

45. FAO's surplus of revenue over expenditure increased from USD 121.18 million in the year 2019 to USD 234.12 million in the year 2020. This increase of USD 112.94 million was due to increase in total revenue during the year 2020. Total revenue of FAO increased from USD 1660.90 million in the

year 2019 to USD 1791.47 million in the year 2020 mainly due to increase in voluntary contributions during 2020 by USD 133.20 million.

46. Voluntary contribution of USD 1227.65 million received during the year 2020 constitutes 68.53 percent of the total revenue, while Assessment of Member Nations under Regular Programme of USD 484.55 million constitutes 27.05 percent of the total revenue during the year 2020. Donations received in kind, Associate Member Assessments, Government counterpart cash contributions and revenue from exchange transactions accounted for the balance 4.42 percent of revenue.

47. FAO's expenses have increased from USD 1498.15 million in the year 2019 to USD 1563.70 million in the year 2020. The increase was primarily on account of increase in employee benefits (5.22 percent), consultants' expenses (10.82 percent) and contractual services expenses (11.72 percent). Travel cost decreased by 67.40 percent from USD 115.80 million (2019) to USD 37.75 million (2020) and training expenses decreased by 47.07 percent from USD 45.12 million (2019) to USD 23.88 million (2020) on account of travel bans and restrictions due to COVID 19.

48. The various components of expenses are indicated below:

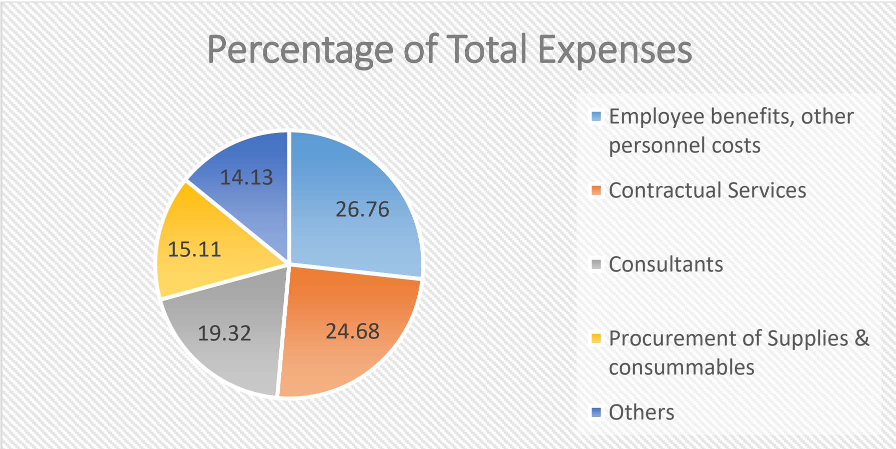

Figure: 1

49. FAO has current assets of USD 2,199 million which constitute 76.44 percent of the total assets of USD 2,876.72 million at the end of the year 2020 whereas current liabilities of USD 649.35 million constitute 30.36 percent of total liabilities of FAO at the end of the year 2020. The total assets of FAO increased from USD 2501.17 million at the end of the year 2019 to USD 2876.72 million at the end of the year 2020. The increase is mainly due to increase in cash and cash equivalents by USD 280.10 million during the year 2020. Cash and cash equivalent increased from USD 997.90 million at the end of 2019 to USD 1277.99 million at the end of 2020 and includes cash at banks and money market funds (USD 202.75 million), short term time deposit (USD 695 million) and cash equivalents held with investment managers (USD 380.24 million).

50. There was increase in total liabilities of FAO from USD 2087.91 million at the end of 2019 to USD 2138.72 million at the end of the year 2020 mainly due to increase in accrued expenses and employee benefit obligations. The non-current employee benefit obligations of USD 1453.34 million constitute 67.95 percent of the total liabilities of USD 2138.72 million at the end of the year 2020.

51. Net assets of FAO increased from USD 413.26 million at the end of 2019 to USD 738 million at the end of 2020 due to surplus of USD 234.12 million, unrealised holding gains of USD 68.84 million and actuarial gains of USD 21.78 million earned during the year 2020.

2. Financial Management

(a) Short term Solvency

52. The short term solvency can be determined from the current ratio, quick ratio and cash ratio which are detailed below:

Table 2

Ratio	2020	2019	2018
Current Ratio[a] (Current Assets/ Current Liabilities)	3.39	3.11	3.51
Quick Ratio[b] (Quick Assets/Current Liabilities)	3.28	2.98	3.38
Cash Ratio[c] (Cash and current investments/ Current liabilities)	2.88	2.59	2.89
Total Assets to Total Liabilities Ratio[d]	1.35	1.20	1.18

Source: FAO 2020, 2019, 2018 financial statements

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] Quick Ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[c] Cash Ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds in current assets to cover current liabilities.

[d] A high ratio is a good indicator of solvency.

53. The current ratio and quick ratio of FAO remained more than three in last three years which is indicative of high liquidity and sound solvency to meet its short term liabilities. The cash ratio also increased from 2.59 in the year 2019 to 2.88 in the year 2020.

(b) Long term Solvency

54. We assessed the ability of FAO to meet its total liabilities using the Total Liabilities to Net Assets ratio.

Table 3

Description and Ratio	2020	2019	2018
Total Liabilities (Millions of USD)	2138.72	2087.91	1894.92
Net Assets (Millions of USD)	738	413.25	343.09
Total Liability to Net Assets Ratio[e]	2.90	5.05	5.52

Source: FAO 2020, 2019, 2018 financial statements

[e] A low ratio is a good indicator of solvency

55. Total liabilities to net assets of FAO were 5.52 times in the year 2018 which has reduced to 2.90 times in the year 2020. This improvement is mainly due to increase in net assets on account of surplus of USD 234.12 million during 2020. However, the ratio of 2.90 is high and FAO may strive to reduce it further to improve its long term solvency.

(c) Operating Cycle efficiency

56. The operating cycle efficiency was assessed in terms of how fast FAO was able to collect its contributions receivables. The Contribution Receivable Ratio for the last three years is shown below:

Table 4

Description and Ratio	2020	2019	2018
Contribution received[5] (Millions of USD)	1712.21	1583.26	1548.57
Average Contribution receivables (Current){(opening + closing)/2} (Millions of USD)	245.02	231.33	259.31
Contribution Receivable Ratio	6.99	6.84	5.97
Number of days taken to encash Receivables	52	53	61

Source: FAO 2020, 2019, 2018 financial statements

57. The increase in Contribution Receivable Ratio indicates that, in 2020, FAO was able to collect more contributions as compared to previous years. The time to collect receivables was 52 days in 2020 compared to 61 in 2018, which indicates an improvement in collecting the contribution receivable in 2020.

3. Changes made in the Financial Statements at the Instance of Audit

58. Based on our audit observations and recommendations, we worked with the Management to help secure necessary amendments in the financial statements for the year 2020 and additional disclosures in the Notes to Financial Statements to enhance transparency. We appreciate Management's efforts to effect these changes for ensuring compliance with the reporting requirements of IPSAS. Some of the important amendments recommended by audit and carried out by the Management, are outlined below:

i) **Change in Accounting Estimates-** Management expanded note 14.7 to include comparative details on the assumptions to the actuarial valuation that have changed and has shown its financial impact by incorporating additional note 14.8.

ii) **Reclassification of comparative amounts-** Management added reclassification notes and a comparative statement showing each line item/balance affected due to reclassification of '*Direct Beneficiary Grant*' out of '*Contractual Services*' into 'Other grants and transfer payments' during the year 2020. Similarly, Management included a note explaining the position that data pertaining to construction contract expenses (earlier reported under '*Repairs and Maintenance*') was reported separately in the financial statements of 2020, by modifying Note 21.5.

iii) **Offsetting Transactions-** Management made necessary corrections to rectify the following transactions:

   a. Accounts Payables was arrived at after off set of Pass through transactions having debit balance (Accounts Receivables).

   b. "Other Expenses" was arrived at after offsetting of reversal of provision for contingent liabilities and actuarial gain.

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[5] Excluding voluntary contributions in-kind and in-service

c. Receivable from exchange transactions, negative balance (payable) in International Fund for Agricultural Development (IFAD) account was offset from receivables from other organizations.

iv) **Employee Benefit Obligations**- Management reclassified the Employee Benefit Obligations into Current and Non-current Liabilities and in all the associated notes, to address overstatement of non-current liabilities by USD 46 million and understatement of current liabilities to that extent.

v) **Cash Flow Statement-** Management revised the cash flow statement as the interest income and dividend received had not been disclosed separately in the cash flow statement, but were merged in the figures of (Gain)/ losses on trading and derivative investments and (Gain)/ losses on available for sale investments.

vi) **Non-derivative financial liabilities-** Management included the maturity profile for stated liabilities, in accordance with the requirements of IPSAS-30 of financial statements regarding liquidity risk.

vii) **Actuarial Assumptions**- Management expanded note 14.7 to include information on additional demographic assumptions, as earlier the demographic assumptions about the future characteristics of current and former employees (and their dependents) who are eligible to receive the benefits, such as rate of employee turnover, the proportion of plan members with dependents who will be eligible for benefits and claim rate under medical plans etc., had not been disclosed.

viii) **Capitalization of Assets-** Management included a disclosure regarding the capitalization threshold of USD 1,500 in the Notes 2.28 and 2.33 to the financial statements.

4. Unfunded Employee Benefits Obligations

59. Employee Benefit Obligations (EBOs) of USD 1,525.63 million constituted 71.33 percent of the total liabilities of USD 2,138.72 million of FAO at the end of the year 2020. Post retirement employee benefit obligations constituted 98.28 percent (USD 1499.44 million) of the total employee benefits obligations. These post retirement EBOs were determined by independent actuaries.

60. In order to discharge these obligations timely, adequate funds are required to be kept in plan assets. FAO has plan assets of USD 639.46 million only against the post retirement EBOs of USD 1,499.44 million, and thereby EBOs of USD 859.98 million (57.35 percent) remained unfunded. These post retirement EBOs of USD 1499.44 million consist of :

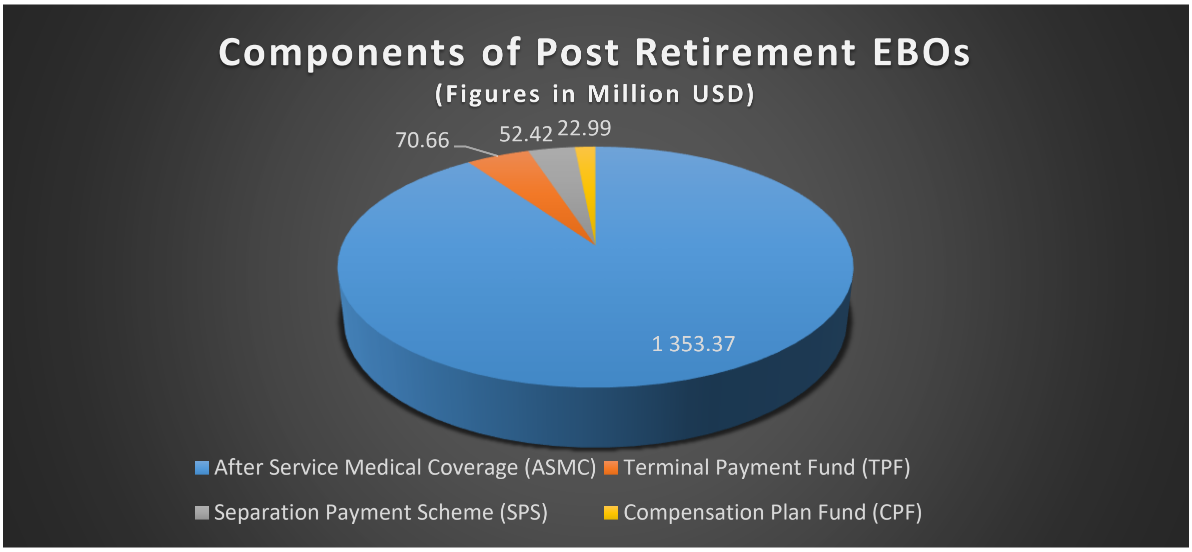

Figure: 2

61. While SPS and CPF are fully funded, ASMC is partially funded and TPF is not funded at all. The EBOs and funding status of ASMC and TPF are discussed as under:

(a) After Service Medical Coverage

62. After Service Medical Coverage (ASMC) provide for worldwide coverage of necessary medical expenses of eligible former staff members and their eligible dependents. The ASMC liability represents the present value of the share of the Organization's medical insurance costs for retirees and active staff post-retirement benefits accrued to-date. ASMC is subject to actuarial review to ascertain the related liabilities and recommend rates of contribution.

63. Against EBO of ASMC USD 1,353.37 million, value of plan assets is USD 564.05 million only and thereby EBOs of USD 789.32 million (58.32 percent) remained unfunded in respect of ASMC. Actuarial Valuation Report (March 2021) indicated that FAO would need to contribute an additional USD 76,277,018 per year to fully fund the ASMC by 2039.

(b) Terminal Payments Fund

64. Terminal Payments Fund (TPF) relate to payment of accrued annual leave, repatriation grant, cost of repatriation travel and the removal of household goods for all eligible staff, and death grant. TPF are subject to actuarial review to ascertain the related liabilities and recommend rates of contribution. We noted that against EBO of TPF USD 70.66 million, no funding was provided, and therefore the entire EBO of USD 70.66 million remained unfunded. Actuarial Valuation Report (March 2021) indicated that FAO would need to contribute an additional USD 24,492,027 per year to fully fund the TPF by 2024.

65. Assessment on Member Nations for ASMC was suspended following 2016-17 biennium. As a result, the target contributions are increasing over the years due to shortfall of contributions since FAO has not received authorisation to fund the prior years' target contributions. We are of the view that additional assessments on Member Nations need to be effectively pursued by FAO to bridge the funding gap in ASMC and TPF for timely discharge of its staff related liabilities. The UN After Service Health

Insurance (ASHI) Working Group made eight recommendations[6] for managing the ASHI in December 2015.

66. We also noted that the Finance Committee in its session held in November 2018 emphasized the importance of adopting a common approach amongst the members of the United Nations Common System on this matter and encouraged the Secretariat's participation in the UN Common System's search for a solution to this issue.

67. Management stated that some of the recommendations of the ASHI working group are not tailored to FAO's ASMC programme. They added that attention of the Governing bodies is continually drawn to this issue.

Recommendation 1: Besides effectively pursuing additional assessments on Member Nations to bridge the funding gap in ASMC and TPF, FAO may explore alternatives as suggested by the UN ASHI Working Group, participate in UN Common System's search for a solution and prepare long term strategy to bridge the gap in funding of ASMC and TPF.

5. Budget Variance

68. IPSAS 24- Presentation of Budget Information in Financial Statements, provides that an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. Such explanation can be included in other public documents issued in conjunction with the financial statements and a cross reference to those documents can be made in the Notes.

69. We observed that the Financial Statements 2020 include Note 25: Statement of Comparison of Budget and Actual Amounts, and Notes 25.7 to 25.10 under the head 'Budget to actuals variance analysis'. Note 25.10 states that spending by budgetary chapter in 2020 follows the biennial forecasted trends reported to the Finance Committee in March 2021 (FC 185/9). Our examination of the Financial Statement and the Report to the Finance Committee revealed that the 2020 Actual Net Expenditure figures presented in the Financial Statement are at variance with those presented to the Finance Committee in March 2021. Further, apart from depicting utilization of budget rate net expenditure as a percentage to revised budget, there is no detailed chapter wise analysis of the difference between the revised budget and budget rate net expenditure.

70. Management stated that due to difference in the dates of preparation of the two sets of figures, annual spending figures in the first year of the biennium as presented to the Finance Committee differ from those presented in Statement V, which is prepared at the end of the annual closure of the accounts. It was also stated that FAO is providing readers of the accounts with relevant and suitable information regarding budget outturn either directly in the Financial Statements, or through published documents.

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[6] Collective negotiations with third-party administrators, Collective negotiations with healthcare providers, Underwriting reviews and negotiations with insurers: Leveraging of national health insurance schemes, Broadening of the United Nations Joint Staff Pension Fund (UNJSPF) mandate, Standardizing of the general ASHI liability valuation methodology and establishment and application of key valuation factors, Adequate funding of the ASHI liability and Investment of reserves.

71. We are of the view that the variance in 2020 Actual Net Expenditure shown in the Report placed before the Finance Committee and the Financial Statements, does not meet the basic requirement of uniformity that would ordinarily be expected of a document issued in conjunction with the financial statements. It is therefore essential that suitable explanation of the difference for each level of oversight by governing bodies should be included in the Notes for ensuring that public documents (Report of the Finance Committee) issued in conjunction with the Financial Statements are internally consistent. There should be adequate disclosure indicating difference in the dates of preparation of the two sets of figures.

Recommendation 2: FAO may comply with the requirements of IPSAS 24 and accordingly provide (i) suitable explanation of the differences for each level of oversight by governing bodies, and (ii) if such explanation is included in other public documents issued in conjunction with the financial statements and are so cross referenced, then these need to be internally consistent.

6. Outstanding Prepayments and Advances

72. As per FAO Financial Rule 202.10.3.8, staff members or non-staff contractors in receipt of travel or entitlement related advances must provide the Organization on a timely basis with documentation required by established procedures, failing which amounts advanced will be recovered from salary or other amounts due.

73. We reviewed outstanding advances report for the year 2020 and noted that past due advances aggregating to USD 3.46 million were pending for recovery, of which USD 0.86 million pertain to advances of prior years from 1999 to 2019. These advances primarily relate to education grants, operational advances, other charges, payroll write back, salary, terminal emolument, travel, US tax, vendor, staff member commitment, field and rent advances.

74. The following table shows category-wise advances given and amount past due:

Table 5

(Amount in USD Thousands)

Type of Advance	Days past due	Prior years balance	Current 2020	Past due	Percentage of total past due advances
Education Grants	469 to 2759	341.865	0.00	341.865	9.89
Operational Advances	1 to 7897	38.450	244.382	282.833	8.18
Other Charges (Recovery)	13 to 2850	62.232	55.088	117.321	3.39
Payroll Write back	16 to 7884	55.115	147.176	202.291	5.85
Salary Advance	3 to 7884	15.876	173.342	189.218	5.47
Terminal Emolument Advance	1091 to 7884	51.036	0.00	51.036	1.48
Travel Advance	1 to 7629	98.530	519.406	617.936	17.87
US tax advances	77 to 443	14.759	5.324	20.083	0.58
Vendor advance	1 to 2741	170.705	1,445.108	1,615.814	46.73
Staff Member Commitment with the Credit Union on Separation	2526	9.688	0.00	9.688	0.28
Field advance	2731	2.351	0.00	2.351	0.07
Rent advance	19 to 354	0.00	7.350	7.350	0.21
Total		**860.607**	**2,597.178**	**3,457.785**	

Source: Information provided by FAO

75. Management stated that of the USD 3.46 million shown as outstanding advances, USD 0.61 million was not outstanding as due to an accounting system issue, it had to be cleared on the General Ledger (GL) level and USD 0.84 million was outstanding due to the timing issue/schedule of the Payroll run calendars. Management further stated that USD 0.37 million representing failed Payroll recoveries is regularly followed up. The remaining balance of USD 1.64 million is mainly represented by the Vendor advances and out of this balance, USD 0.37 million was due in 2021 and was erroneously marked as receivable in 2020.

76. We emphasize that the Management may endeavour to settle long outstanding advances and maintain updated and correct data by removing transactions already adjusted from the outstanding advances report.

Recommendation 3: Monitoring of supplier related advances (mainly Vendor Advances) may be strengthened and a time bound strategy for settling supplier related advances may be framed.

7. Capitalization of Assets

77. FAO Manual 503.2.1 defines Non-expendable Items as 'Items that have a useful life of at least one year and cost more than USD 1,500 per unit' while Expendable Items are the 'Items (equipment and supplies) that cost less than USD 1,500 per unit, which may be used or consumed' except attractive items7.

78. This is at variance with the United Nations IPSAS Policy Framework (December 2016) which has defined the threshold limit of property, plant and equipment capitalization as USD 20,000 for the United Nations and United Nations Peacekeeping Operations. All other Secretariat reporting entities have the option of adopting either USD 20,000 or USD 5,000 threshold, depending upon the size of their operations.

79. FAO has however retained the capitalisation threshold of USD 1,500. Out of 6,340 items in the IPSAS Assets Ledger, 3,264 items, each valuing less than USD 5,000 (threshold prescribed by UN) had been capitalized. Adoption of a lower threshold for capitalization results in understatement of expenses and overstatement of assets and ultimately results in depiction of differing financial position and financial performance by FAO within the UN system.

80. In response to our Audit Observation, the Management replied that FAO is a Specialized Agency in relationship with the UN, and resolutions are not binding on FAO unless the Conference has decided that FAO should follow them. The Management considers that the capitalization threshold of USD 1,500 is justified and is based on a comprehensive analysis performed prior to adoption of IPSAS in 2014 and in case the capitalization threshold be raised to USD 5,000, entire asset classes would be excluded from the statement of financial position. However, Management has assured to review and consider the effects of a less substantial increase of the capitalization threshold.

[7] As per FAO Manual 503.2.1, attractive items are items deemed to be of an attractive nature that have a value of at least USD 500 per unit and which are included in the List of Attractive Items so designated by the Director, CSF.

Recommendation 4: FAO may review the threshold for capitalization of its property, plant and equipment.

8. Fully Depreciated Assets

81. According to IPSAS 17- Property Plant and Equipment, the useful life of an asset shall be reviewed at least at each annual reporting date and if expectations differ from previous estimates, the change(s) shall be accounted as a change in accounting estimate in accordance with IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors.

82. We, however, noted that FAO has not reassessed the useful life of assets. Historical value of the total Property, Plant and Equipment (PPE) of FAO was USD 112.96 million, on which accumulated depreciation of USD 74.48 million has been provided and net value of PPE works out to USD 38.48 million. Of this, assets costing USD 56.67 million (50.16 percent) have been fully depreciated and are still in use. This indicates that PPE of FAO has not been stated at their fair value and need to be revaluated.

83. Use of these fully depreciated assets implies that they possess economic value to the organisation and the useful lives of some of the assets might have been significantly under estimated. Furthermore, if such assets do not have any useful life, then carrying such a high proportion of fully depreciated assets of very old period may lead to increase in the operating cost and inefficiency. In such cases, action to declare these old assets as obsolete and disposal thereof is required to be taken.

84. FAO has adopted estimated useful life of Property Plant and Equipment which is at variance with the United Nations IPSAS policy framework as detailed in Table 6 below:

Table 6

Class	Estimated useful lives (As per UN IPSAS policy framework)	Estimated useful lives (As adopted by FAO)
Office furniture and fixtures	3 – 10 years	5 – 7 years
Machinery and equipment	5 – 20 years	5 – 7 years
Computer and IT equipment	4 – 7 years	3 years
Motor vehicles	6 – 12 years	3 – 5 years
Buildings	7 – 50 years	5 – 40 years
Leasehold improvements	5 years	Shorter of lease term or useful life

Source: Note 2.30 of the Financial Statements 2020 and UN IPSAS framework

85. Similarly, in case of Intangible assets, the United Nations IPSAS policy framework prescribes estimated useful life of 3 years to 10 years for Software acquired externally and Software internally developed, whereas FAO has restricted the estimated life of these intangibles up to 5 years.

86. Adoption of estimated life of assets different from the UN IPSAS policy framework results in charging of depreciation different from UN system which ultimately results in depiction of different carrying value of these Assets by FAO within the UN system.

87. Management assured to make a reassessment of the useful life of its assets to reflect fair presentation as per IPSAS and to ascertain reasonable estimate of useful life of assets for their further

utilization or disposal. It was further informed that during the course of 2020, FAO participated in the work of the United Nations Systems Task Force on Accounting Standards (TFAS) regarding revision of Useful Economic Life (UEL) of PPE and prepared the necessary analysis. FAO has repeated the above analysis of UEL in April 2021. As a measure to encourage disposal of assets past their useful economic life, a series of negotiations have been conducted with United Nations High Commissioner for Refugees (UNHCR) to enter into a global auction sale services at UNHCR's globally organized public auctions. However, we observed that no change(s) is reflected as a change in accounting estimate in accordance with IPSAS 3, during 2020 on the basis of reassessment of the useful life of assets.

Recommendation 5: FAO may reassess the useful life of its assets to reflect fair presentation as per IPSAS and to ascertain reasonable estimate of useful life of assets for their further utilization or disposal.

9. Receivable Assessed Contribution

88. As per FAO Regulation 5.5, contributions and advances shall be due and payable in full within 30 days of the receipt of the communication of the Director-General, or as of the first day of the calendar year to which they relate, whichever is the later. As of 1 January of the following calendar year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears.

89. We noted that an amount of USD 211.14 million was receivable on account of assessments of member nations on which allowance for doubtful accounts has been created for USD 42.62 million (20.19 percent) at the end of December 2020. We also noted that out of receivables of USD 211.14 million, USD 13.69 million has remained recoverable since more than five years. Note 6.5 of the Financial Statements provide that contributions in arrears related to seventeen countries facing voting rights issues amount to USD 27,000,000 for assessed contributions. However, FAO rules and regulations require that Member Nations cannot be in arrears in payment of its financial contributions to the Organization in an amount equal to or exceeding the contributions due from it for the two preceding calendar years.

Recommendation 6: FAO may assess the recoverability of old outstanding assessed contributions, take action as per Financial rules and Regulations and seek approval of the Conference to write off the irrecoverable assessed contributions.

10. Other Receivables

90. Rule 202.10.7.1 of FAO Financial Rules provides that when, following appropriate review and follow up, amounts owing to the Organization, other than arrears of contributions, are considered to be irrecoverable, they may be approved for write-off by the Director, Finance Division up to USD 5,000; by the Assistant Director-General, Corporate Services, Human Resources and Finance Department for amounts up to USD 50,000; beyond this amount, the Director-General will have authority to approve.

91. FAO has 'other receivables from non-exchange transactions' of USD 4.89 million for which allowance for doubtful accounts of USD 3.62 million (74.02 percent) has been made in the accounts.

Further, out of USD 4.89 million, USD 3.17 million (64.82 percent) has been recoverable since more than five years. Also, an amount of USD 7.58 million has been recoverable from exchange transactions from UN and other organizations for which allowance for doubtful accounts of USD 2.21 million (29.66 percent) has been made and includes an amount of USD 0.70 million (9.39 percent) which has been recoverable since more than five years.

92. We noted that no write off has been made during the year 2020 in respect of these old outstanding receivables.

93. Management stated that for amounts other than Government counterpart cash contributions[8] (GCCC), a review of all aged transactions would be undertaken with the relevant budget holders to address the need for write-off of these amounts. GCCC amounts are established by the Host County Agreements and write-off of these amounts is on an exceptional basis only because the implication of writing these off is that funding shortages are apportioned across other members. Within the financial statements, FAO has addressed the issue of recoverability of these amounts by fully providing for transactions outstanding for more than two years.

Recommendation 7: FAO may, after assessing possibility of recovery on a case by case basis of the old outstanding receivables other than GCCC, consider write off of irrecoverable amounts on a periodic basis.

11. Inventory Management

94. IPSAS 12 requires that entity should disclose the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity and the carrying amount of inventories carried at fair value less costs to sell.

95. In Note 9 to financial statements, inventories of USD 15.37 million have been classified as Project inputs (USD 15.32 million) and other (USD 0.05 million), but no class wise detailed summary of inventories as per the requirements of UN IPSAS Policy framework and IPSAS 12 has been included. We also noted that age analysis of the closing inventories, computation of average inventory, inventory turnover ratio and inventory holding ratio is not being done in FAO. These analyses are required for proper and timely assessment of requirement of inventories and to avoid wastages. In response, Management intimated that implementation of the Global Inventory Management Solution (GIMS) which is planned as part of the Global Resource Management System (GRMS) upgrade will facilitate compliance with IPSAS 12. Management further assured to review and strengthen the Financial Statement note disclosures relating to Inventory, required under IPSAS 12 for the 2021 financial closure.

96. The UN Corporate Guidance for IPSAS-Inventory (March 2020) and UN IPSAS Policy Framework (2016) provides that Publications are part of inventory. However, Note 2.25 of the

[8] Many host countries have agreements with FAO to cover some or all of the costs associated with the Representation. In a number of cases these include not only free provision of premises, national staff, etc. but also a cash contribution for general costs.

Financial Statements states that Publications are not valued as inventory to conform to the UN system practices. Therefore, the Note requires modification/ elaboration after due verification.

Recommendation 8: FAO may ensure compliance to IPSAS 12. Priority may be accorded to time-bound implementation of GIMS with inclusion of best inventory management practices in the module.

12. Financial Instruments-Value at Risk

97. IPSAS 30- Financial Instruments: Disclosures, provides that if an entity prepares a sensitivity analysis, such as value-at-risk (VaR), that reflects interdependencies between risk variables (e.g. interest rates and exchange rates) and uses it to manage financial risks, it shall disclose the main parameters, assumptions underlying the data and method used in preparing VaR.

98. Although FAO prepares VaR of its various investment portfolios (short term investment as well long term investment) to manage financial risk, it has not disclosed the results of VaR along with main parameters, assumptions underlying the data and method used in preparing VaR in Financial Statements as per requirement of IPSAS-30.

Recommendation 9: FAO may work out VaR of all the investment portfolios and disclose the same with all parameters, assumptions, data and method in its financial statements, as per IPSAS-30, for better understanding of financial risk.

B. COMPLIANCE AUDIT FINDINGS AT FAO HEADQUARTERS

1. Procurement Management

99. FAO Manual 502.13 (Contract Management) stipulates monitoring and Management of Vendor's performance and obligations under a Contractual Instrument for goods, services or works, including terms and conditions such as quality, timelines (e.g. delivery and project deadlines), compliance with Key Performance Indicators (KPIs) or Service Level Agreements (SLAs) as relevant, price, payments and discounts and so forth.

100. FAO incurred an expenditure of USD 236.253 million on Supplies and Consumables during 2020. Of this amount, USD 19.901 million was on account of procurement at FAO Headquarters.

101. We examined 125 purchase orders of FAO Headquarters during 2020 with a transaction amount of USD 3.498 million. We observed:

- Delay in delivery of goods and services in 1892 out of 2342 deliveries (80.78 percent) in 78 out of 125 purchase orders sampled for audit.
- Delays ranged from 8 to 848 days. There were 105 deliveries where the delay exceeded six months.
- Four suppliers with more than 50 deliveries defaulted in promised delivery in the range of 54 to 94 percent of total number of deliveries.

102. All the purchase orders issued had the conditions of penalty for liquidated/actual damages due to late delivery. However, in all the above late delivery cases, no analysis of reasons for late deliveries was conducted to enforce the penalty clauses on the suppliers. Management stated that the receipt date in GRMS does not always reflect the actual date of delivery but rather indicates the date on which the receipt was entered into the system (which is usually after the actual date of delivery). It was further stated that there is no evidence of significant delays in deliveries attributable to vendors and confirmed that contract managers are currently assigned for all contracts to monitor and manage vendor contract performance. Management, however, expressed difficulty in providing information on actual date of delivery since it was stated that this can be confirmed only by manually checking all the deliveries one by one. Thus, data on GRMS cannot be used to monitor delivery by vendors or to invoke the clause on liquidated damages in case of delay.

103. We also observed that supporting documentation of procurement planning, procurement proposal, bidding, comparative selection, agreement copies, purchase orders issued and vendor performance evaluation reports are not available in GRMS which are key documents for review and monitoring of procurement by the approving authorities and also help other information users in making informed decisions.

Recommendation 10: Uploading of documents in GRMS relating to procurement may be ensured to facilitate proper evaluation and monitoring of the procurement process and also to enhance transparency. It is also recommended to ensure that actual delivery dates of goods are entered in GRMS to facilitate evaluation of vendor performance.

2. Travel Management

104. During the year 2020, travel cost significantly reduced from USD 115.80 million (2019) to USD 37.753 million (2020) following the Covid-19 pandemic travel restrictions.

Outstanding Travel Advance

105. As per FAO Manual 450.5.3, Travel Expense Claims (TECs) must be submitted to the Travel Group, AFDS within one month following completion of a journey; for journeys exceeding one month, interim claims can be submitted. Delay in submission of claims over 90 days after completion of a journey will result in the deduction of travel advances from the staff member's salary, in accordance with Financial Rule 202.4252. For consultants, recovery is effected from final payment of honorarium.

106. We observed that during 2020, there were 661 cases amounting USD 617.936 thousands of outstanding travel advances pending settlement beyond 30 days, in the range of 1 to 7629 days.

107. Although Management stated that clearance of outstanding travel advances is based on a recovery system, with an automatic payroll recovery of advances that are outstanding beyond 90 days from the end date of the mission, we observed that there were cases where advances were pending settlement even after 90 days. The ageing analysis undertaken by us revealed that there are 30 cases pending settlement for more six years and up to 20 years involving an amount of USD 70.9 thousand.

108. Management however attributed these very old travel pre-payments to a system error that did not correctly match the pre-payment with the expenses report and enable the pre-payments to be offset.

Recommendation 11: An effective monitoring and follow-up mechanism on outstanding travel advances may be put in place for compliance of the stipulated timelines for settlement, with particular emphasis on old cases. It may be ensured that correct and updated data of outstanding advances is maintained by removing transactions that are already adjusted from the database.

3. Concessionaire Services in FAO Headquarters

109. As per FAO Manual 501, Concessionaires are commercial service providers to FAO staff and/or to the Organization, allowed to operate their business on FAO premises for reasons of convenience and/or efficiency from FAO's perspective (e.g. banking, travel, insurance, catering, cleaning services, etc.). Selected concessionaires operate their respective businesses on FAO premises on a cost (i.e. space, maintenance and utilities) recovery basis.

110. Procurement of concessionaire services must be organized and managed in accordance with the provisions of Section 502 of FAO Manual, and relevant Service Level Agreements shall, *inter alia* stipulate:

i. Clearly defined key performance indicators;

ii. Fees due to the Organization (i.e. office space, maintenance, utilities, etc.) and yearly payment modalities (in advance in one instalment per year), as well as provisions for (bi-annual) fee updates,

iii. Financial security instruments (e.g. deposit), as and when appropriate;

iv. Arrangement for measurement of client satisfaction (e.g. periodic surveys and the modus operandi for their evaluation or satisfaction rating feedback devices);

v. current name of FAO contract manager appointed by the CS-ADG (if not included, a formal amendment to the existing contract will be required).

111. FAO contract manager is responsible for monitoring concessionaire performance in terms of service delivery and risk management, in accordance with the terms and conditions stipulated in the contract and the Service level agreement.

112. Management stated that FAO Headquarters had 13 Concessionaire Services in its premises during 2020. During 2020, net revenue realised from the concessionaires was EURO 392,688 (EURO 771,158 in 2019). Year wise outstanding invoices in EURO is given in the table below:

Table 7

2018	2019	2020
16,978	15,207	290,972

Source: Information provided by FAO

113. It was stated by Management that the low level of revenue collection was the result of a conscious decision by FAO management to waive (fully or partially) the payment of the cost recovery fee in order to ensure the uninterrupted provision of concessionaire services on its premises.

114. We noted the following in the course of our scrutiny:

i. Monitoring of concessionaire performance by way of Customer satisfaction survey report was not available except in case of one concessionaire service for travel services issued during 2019.
ii. 8 out of 13 concessionaires did not have defined Key Performance Indicators.
iii. Performance Evaluation Reports were available in respect of 9 out of 13 concessionaires.
iv. There were instances of non-compliance with the provisions of the contract in the following cases:

a) A concessionaire operating telecommunication antennas on the roof of FAO Headquarters did not pay invoice amounting to EUR 20,000 covering the period 7 Jul 2020 to 6 Jul 2021 despite a number of reminders. It had outsourced their antenna business to another company which had not yet recognized its liability to pay the invoice. The case has been discussed recently with FAO Legal department in order to identify the possible recourse.

b) Another concessionaire did not pay invoice amounting to Euro 20,000 for the period 7 Jul 2020 to 6 Jul 2021. This concessionaire had also outsourced its antenna business to another company and the case was also discussed recently with the Legal Department.

Recommendation 12: Management may introduce service level agreements with clearly defined performance indicators into the new contracts of concessionaires in order to bolster the contractual framework.

4. Governance Issues

(i) Risk Monitoring

115. As per IPSAS 30, Value at Risk (VaR) reflects interdependencies between risk variables and as such is a preferred method of disclosure of financial risk in Financial Statements. The VaR measures the potential loss in value of an asset or portfolio over a defined period for a given confidence interval. FAO monitors its risk in long-term investment portfolio through various risk monitoring tools i.e. return on investment with reference to benchmarked indices, portfolio duration and value at risk (VaR). FAO measures VaR in percentage as well as USD terms at 95 percent confidence level for period of one year of different long term portfolios (developed market equity portfolio, and different fixed income securities portfolios) as well as overall long-term investment portfolio.

116. FAO, however, does not measure VaR of emerging market equity portfolio and is therefore, excluded from the risk measurement. Thus, FAO does not measure risk of potential loss in respect of emerging market equity portfolio. VaR of overall long-term investment portfolio, therefore, does not depict correct picture of potential loss for risk monitoring. Given the fact that the historical returns on emerging market portfolio are more volatile and FAO has exposure of USD 68.94 million in the emerging market equities (10.75 percent of total long term investment portfolio), tracking of VaR of

emerging market equity portfolio is crucial for monitoring risk of individual portfolio and its impact on overall long-term investment portfolio.

117. We also observed that the Organisation is monitoring the VaR at 95 percent confidence level only. This may be considered for being measured at higher level (say 99 percent) for stringent risk monitoring. Management agreed to implement the recommendation for the December 2021 reporting.

Recommendation 13: FAO may work out VaR on all the investment portfolios in order to assess the potential loss on the entire investment portfolio and also consider raising the confidence level for better risk monitoring.

(ii) Complaint Cases

118. The table below depicts the year-wise outstanding of complaint cases:

Table 8

Year	2017	2018	2019	2020
Complaints outstanding as of January	42	49	106	120
New complaints received during the year	76	112 (47.4)	121 (8.04)	170 (40.4)
Total	118	161	227	290
Complaints taken up for investigation	NA	26	24	19
Complaints attended/closed	69	55	107	163
Complaints pending for investigation at year end	**49**	**106**	**120**	**127**

Source: Information provided by FAO
Figures in brackets show the percentage increase of new cases per year.

119. The number of new complaints received has been showing an increase each year. In 2020, number of new cases went up by 40.4 percent compared to 8.04 percent in 2019. Of the total complaints received during 2020, Fraud by FAO personnel & third parties (41 percent), Harassment and Abuse of Authority (20 percent), Favoritism (10 percent), Sexual Harassment (6 percent) and FAO Manual Violations (13 percent) constituted the major categories.

Recommendation 14: In light of the nature of complaint cases, FAO may examine if any systemic improvements are required in the Organization. It may consider providing Office of Inspector General (OIG) with adequate resources to address the increasing numbers of complaints.

(iii) Implementation of recommendations issued by Office of Inspector General

120. 480 recommendations of OIG which had been accepted by Management for implementation were pending as on 31 December 2020. In case of 292 recommendations, the Management made a total of 748 revisions of the implementation dates. This included 181 recommendations with multiple revisions of their target implementation dates, ranging from 2 to 12 revisions, since their issuance. The period between the initial implementation date and the latest revised date ranged from 2 weeks to 92 months, with an average of 17 months.

121. We also noted that OIG had revised (March 2021) its follow up procedures on implementation of audit recommendations in the Audit Manual. All agreed actions that are outstanding for 36 months or longer, would be subject to a joint review and closed with Management's concurrence (at Deputy Director-General level) to assume the corresponding risks, unless the Management provides justified requests for additional time to implement the long outstanding recommendations. It was intimated that OIG would soon be conducting an exercise to assess the long outstanding recommendations and indicate the number of recommendations closed without implementation in its 2021 annual report. It was also stated that OIG encourages Management to continue implementation as expeditiously as possible and, although it is Management's prerogative to accept the risk that non-implementation creates, OIG continues to emphasize to Management and the Oversight Audit Committee the implications of such acceptance.

122. Given the responsibility cast on the Office of the Inspector General, which involves, *inter alia* evaluating the adequacy and effectiveness of the Organisation's internal control, financial management, use of assets, investigation of allegations of irregularities and role in promoting integrity in FAO's operations, we are of the view that there is a need to work towards early implementation of accepted recommendations. Closure of accepted recommendations, on the basis of acceptance by Management of the risks associated with non-implementation may tend to dilute the commitment towards strengthening of the internal governance processes.

123. Management informed that a senior management campaign was launched in the first quarter of 2021 to raise awareness of the importance of timely implementation of audit related 'Agreed Actions/recommendations'.

Recommendation 15: FAO may continue to review the pending accepted actions on recommendations periodically at an appropriate level and implement these in a time bound manner.

C. AUDIT FINDINGS OF FIELD OFFICES[9]

1. Project Management

124. Project management needs improvement in all the decentralised offices covered by audit during the year. Slippage of timelines in completion of project activities, slow progress of work and delays in project closure were noticed in several projects in the decentralised offices covered by audit this year.

(i) Delay in project implementation:

125. Reasons for delays in implementation include extended procurement and bidding procedures, long-drawn out process of recruiting international staff, delay in selecting operational partners,

[9] Regional Office for North Africa and Near East (RNE) at Cairo, Sub-Regional Office for Southern Africa (SFS) at Zimbabwe and six FAO Representations (FAORs) at Cameroon (FRCMR), Iraq (FNIRQ), Malawi (FRMLW), Pakistan (FAPAK), Syria (FNSYR) and Zimbabwe (FRZIM)

commencement of projects without firm commitment from participating countries and subsequent withdrawal by some countries, delay in recruiting consultants, deficiencies in project planning and commencement of projects with insufficient data. Delay in project implementation result in projects getting extended. Although such extensions are often at no additional cost basis, they result in delay in transferring intended benefits to beneficiaries. While we acknowledge that at times projects are delayed on account of extraneous factors that are beyond control, there were several instances where delays could have been avoided with better management and monitoring. In FAO Representation at Iraq (FNIRQ), reasons for delays were attributed to security reasons and restricted access to project areas. However, we noted that at the time of project formulation, the areas identified for implementation of the projects were considered as low risk areas. This points to a need for better risk assessment while formulating projects for ensuring that risks are identified correctly and well in advance, so that they do not impede progress of projects.

(ii) Delay in project closure:

126. There were 13 projects where financial closure was effected with delays ranging from 21 to 710 days, even after completion of project activities and operational closure. Also, there were projects awaiting financial closure for extended periods despite closure of operations and completion of project activities. Although reasons for delays were at times attributed to external factors that were beyond control of the Organization, there have been instances where delays were on account of controllable factors like, delay in initiating request for project closure by the Budget Holder (BH), failure to pursue with Headquarters in cases of delay in initiating closure by Finance Division in Headquarters, delays in closure of commitments, delay in clearing outstanding travel claims, delay in settling accounting issues, overspending on budget lines and spending on unbudgeted items that required post-factum budget revision and donor's approval of budget lines that had been overspent, delay in submission of terminal reports to donors, and delay in approval and acceptance of terminal report by donor.

127. Several of these issues were pointed out by earlier external audits and recommendations were issued. At times, although the recommendations were stated to have been implemented, it was found that the deficiencies continue to persist. In respect of FAPAK, for instance, external audit had earlier recommended (2016 report) that internal mechanisms be developed to monitor and carry out the responsibilities and accountability of project process owners, particularly those performed by the Budget Holders under his/her sphere of control to ensure prompt project closures. Although this recommendation was stated to have been implemented, however, we noted that in several projects, there were delays in effecting financial closure on account of delay in settlement of outstanding financial commitments.

128. FAPAK stated that after assignment of Operations Officer/ Head of Operations Unit in April 2020, the Operations unit has been established with clear roles and responsibilities, including monitoring and support for ensuring timely operational and financial closure of projects. FAO Representation at Malawi (FRMLW) stated that regular meetings have been planned between the Coordination, Operations, Procurement and Finance Sections to ensure that project commitments are

closed in a timely manner. We take note of and appreciate steps taken by these Offices to improve the processes for project closure.

Recommendation 16: Project implementation may be improved through better risk assessment and planning for ensuring timely completion of projects. It may be ensured that operational and financial closure of projects are effected within the prescribed timelines.

(iii) Inaccuracy of information on FPMIS

129. The Field Programme Management Information System (FPMIS) is an enterprise-wide information and monitoring software tool, supporting activities funded from extra-budgetary resources, as well as Technical Cooperation Programmes (TCPs) funded by the Regular Programme. It is important to ensure accuracy of information to allow management to fully utilise its potential as an effective monitoring tool.

130. In several field offices, information uploaded on FPMIS was found to be incorrect[10]–date of financial closure preceded date of operational closure, details of project Task Force members were not reflected correctly, cancelled projects and projects in pipeline that were subsequently found to be infeasible continued to be reflected on the system, output indicators and status of projects were not updated timely, dates of completion of project activities and submission of donor reports were reflected incorrectly, etc. Inaccuracy of information on FPMIS defeats the purpose of having a monitoring mechanism and undermines the effectiveness of FPMIS as a monitoring tool.

Recommendation 17: Process owners may be sensitised about ownership of data and the need to ensure accuracy of data/information on the system.

2. Procurement

(i) Procurement Planning

131. Procurement planning assists in meeting the requirements of goods and services efficiently and in a timely manner and in accordance with rules and regulations of the Organization. A procurement plan should be regularly updated to include new information as it becomes available, to show progress and identify delays and initiate actions to mitigate any associated risks.

132. In most of the offices audited, wide divergence between procurements planned and implemented were noted, as a result of which the offices could not fully derive benefits of these plans. In some years, the divergence was as wide as 78 percent (Sub-regional Office for Southern Africa, Zimbabwe) and 140 percent (FRZIM). In FRCMR, actual procurement exceeded planned procurement by huge margins, ranging from 107 percent to 810 percent during the period covered by audit. In FRMLW, procurement plan was not prepared in 2018 whereas in 2019 and 2020, actual procurements were consistently less than planned procurement. The plans were not reviewed periodically, updated plans were not prepared and deviations from plans were not documented, analysed and escalated to

[10] 10 cases in FNSYR, 4 cases in FRZIM, 3 cases in RNE Cairo, 2 cases in FRMLW, 1 case in FAPAK.

higher management for approval. Such wide variations over an extended period defeat the objective of preparing procurement plans and indicate deficient planning.

133. Management attributed reasons for deviation of actual from planned procurements to several reasons – project budget holders not submitting procurement plans on initial call; projects not updating existing procurement plans in the event of additional activities during the year or receipt of extra funding which necessitates supplementary procurement; new projects opening during the latter part of the year without the development and submission of procurement plans.

134. In RNE, Cairo and FNIRQ, annual work plans were not prepared by procurement division. In FAPAK, the procurement plans were prepared without adequate details regarding source of funding, buyer names and proposed methods of procurement, etc.

Recommendation 18: A system of quarterly review of annual procurement plans be introduced in field offices to facilitate evaluation of progress of procurement against planned milestones. Procurement plans may be updated to ensure that it remains a live document reflecting changing procurement requirements. Project teams may be alerted on the importance of timely submission of procurement plans.

(ii) Discrepancy between quantity ordered and quantity received

135. Examination of data on the procurement module of GRMS indicated discrepancy between quantity ordered and quantity received. Management informed that short receipt of goods may occur on account of short deliveries or damages which are not replaced, or initially ordered quantities not required in full due to changed circumstances post ordering. In such cases where there were changes in requirement post ordering, the net ordered quantity was not revised and updated on the ERP prior to termination date of the concerned Purchase Orders to ensure that the system reflects correct information. We observed 1986 cases in three country offices (FRMLW- 1638 cases, FRCMR- 261 cases, FRZIM-87 cases) where quantity received was short of net quantity ordered. There was no documentation on the system to indicate reasons for difference between quantity ordered and quantity received.

136. There were instances where status of receipt of goods was not updated on the system by contract managers/buyers, despite closure of Purchase Orders (POs). Quantity received was shown as NIL although goods had been received and payments released after due certification by the requester.

Recommendation 19: A review may be carried out of all cases where actual quantity received was short of net ordered quantity. GRMS may be updated to reflect the correct position wherever quantity ordered has undergone a change post ordering.

(iii) Discrepancy between amount invoiced and quantity received

137. There were instances where currency amount invoiced was aligned to "net quantity ordered" and not with "net quantity received." There were several instances in FRMLW, FRCMR, and FRZIM where quantity received was recorded as NIL, but amount invoiced was as per quantity ordered.

Management, however, stated that payments are made only after receiving certification from the requester regarding actual receipt of ordered quantities

Recommendation 20: FAO may ensure that information on GRMS regarding amount invoiced is aligned to quantity received and not to quantity ordered in all cases, for ensuring correctness of information, and also for providing an added checkpoint for ensuring correctness of payments.

(iv) Delays in procurement

138. In several offices, there is scope for reducing the time taken for issue of purchase orders from date of receipt of requisitions. Time taken to process requisitions in some test checked cases in RNE, Cairo ranged from 42 to 345 days. Delays were mostly observed at technical evaluation stage of the procurement process. In FAPAK, we noted that on an average, it took 43 days to complete a technical evaluation. There were cases where technical evaluation was pending since May 2019.

139. Even after issue of purchase orders, there were delays in receipt of ordered goods. In FRMLW, we observed that in 1142 cases, purchase orders were placed during 2018 and 2019, but goods were not received, or quantity received was less than quantities ordered although the due dates of delivery had long been exceeded. Similarly, in FRCMR, in 64 percent cases, goods ordered during 2017, 2018 and 2019 were yet to be received even after more than one year. In FRZIM, there were purchase orders of goods placed during 2018 to 2020, where there was no delivery/ partial delivery for extended periods reflecting inadequacy of monitoring and follow-up.

Recommendation 21: All open Purchase Orders where due dates of delivery have been exceeded may be reviewed and liquidated damages may be imposed wherever applicable.

(v) Purchase Order for Services

140. In GRMS, receipts are issued primarily for POs relating to goods and associated lines. No GRMS receipts are raised for POs relating to procurement of services. Management stated that no receipt for service procurements is required in GRMS since no physical goods are delivered and no inspection is required and payment for services and works are processed only on receipt of certification of actual deliveries by requester/contract manager. However, we are of the view that receipts for service procurements should also be recorded on GRMS on the same lines as for goods procurement.

Recommendation 22: Services received may also be updated in GRMS immediately on receipt of certification from contract manager and prior to release of payment for ensuring that end-to-end position of procurement action in respect of services is reflected in the system.

(vi) Missing Purchase Requisition Numbers

141. As per Manual provision, requests for procurement of goods, works and services, with the exception of Emergency Implementation and Exigencies, Framework Agreements and Advance Tenders, must be approved by the Budget Holder to certify the availability of funds for the estimated cost of the procurement action. In FRMLW and FRCMR, 4079 Purchase Orders (POs) were created without Purchase Requisitions (PRs). This reflects inadequate validation controls since the system should not allow a procurement action to proceed without a valid PR number.

Recommendation 23: Where acquisitions are not required to have corresponding PR numbers, the field of PR number may be populated with information like "Not applicable", "Not required", etc. instead of leaving it unpopulated, to provide an assurance that the prescribed workflow has been complied with.

(vii) Performance securities

142. FAO's Procurement Policy requires submission of security instruments by vendors for all high value, technically complex contracts or construction contracts to secure the performance of the contract, including during its maintenance period/defects liability period.

143. In all offices audited, it was observed that, other than construction contracts, performance security was not being obtained for other high value contracts. In FNIRQ, although Management stated that performance bonds were obtained and handed back to the vendors upon the end of defect liability period, this process was not adequately documented. Hence, Audit was unable to derive assurance that this procedure was actually followed to secure the interest of the Organization.

Recommendation 24: Security instruments may be consistently obtained from vendors and documented in high value procurements to secure the interests of the Organization.

3. Internal Control Measures

144. FAO has an internal control framework (ICF) that integrates compliance and control mechanisms into a coherent and comprehensive framework. The ICF seeks to improve the extent of compliance with extant procedures and guidelines, the achievement of expected results, and the quality of information provided to the Governing Bodies and other stakeholders.

(i) Loss of Assets and Property

145. There were instances of theft/loss of FAO property in some offices, which indicated that control procedures embedded for safeguarding FAO assets and property needed better compliance. In several such cases, the prescribed procedures were not followed and there were slippages in timelines for initiating necessary action. In FAPAK and RNE, Cairo, we observed issues like non-reporting of theft/loss of assets, non-filing of police report of loss/theft by the asset custodian, delay in initiating action by the asset responsible officer for initiating cost recovery after reporting of the

incident, and initiation of procedures after cessation of contractual employment of the asset holder resulting in cost recovery not being effected and the loss being eventually written off. In some cases, custodian details of assets were incorrectly recorded in the Asset Register which made it difficult to fix responsibility for loss of assets.

146. Detailed procedures are prescribed for issuing of FAO property to FAO Staff and Non Staff Human Resources (NSHR) for official use. While issuing FAO equipment to staff or consultants, instances of non-compliance with prescribed procedures were observed. In FNIRQ, FNSYR and FAPAK, the loan form prescribed as per the Manual was not used for issuing FAO assets to staff. In a large number of cases (166 cases in FAPAK, 18 cases in FNIRQ, 61 cases in FNSYR), assets were loaned without approval of Responsible Officer. Also, in several instances (61 cases in FNSYR and 21 cases in FNIRQ), assets were loaned without recording asset number, as a result of which we could not verify whether the asset custodian details were duly updated in the Asset Register of concerned years. Wherever asset numbers were recorded in the property loan form, examination of the Asset Register revealed that in many cases (166 cases in FAPAK, 2 cases in FRMLW, 17 cases in FRCMR, 3 cases in FRZIM), the asset custodian details were not updated in the Register of concerned years. In FNIRQ, instances like an asset being loaned to the same staff twice with notably different signatures, and the same asset being loaned on different occasions under different tag numbers were observed.

147. Similarly, there were instances of non-compliance to prescribed procedures for donating FAO property. The first step in the prescribed workflow for donation of surplus property is that the Asset Responsible Officer receives a donation request from a charitable, educational or non-profit-making organization (NGO) regarding FAO's surplus property. Review of records related to disposal of surplus property through donation and scrapping revealed that in FAPAK, two assets were donated without receiving request from the recipient organization in prescribed format. One asset was donated on the basis of verbal request and without supporting documentation. There was insufficient documentation to indicate that disposal of assets of the organization through sale to UN staff and disposal of IT assets through scrapping were done with approval of competent authority.

(ii) Payment to Consultants

148. In FNSYR, there were several instances of over payments to consultants, payments to consultants being charged to a project without availing their services, and payment to consultants being made beyond closure of project activities. Management attributed these to lack of adequate manpower in the Office and added that recruitment of an international operations officer during 2020 has strengthened this function.

149. FAO guidelines pertaining to consultants aim at ensuring consistency in approach in selection and remuneration packages of Consultants. In FRZIM, two consultants were reimbursed a higher rate of remuneration than the prescribed maximum daily rates on the ground that it was commensurate with the level of complexity of the task, without escalating the matter and obtaining approval of higher authorities for deviating from the prescribed local consultancy rates.

(iii) Over payment to Suppliers

150. In SFS, Zimbabwe, there were instances of overpayment (four cases totaling USD 18,685.69) to suppliers on account of technical glitch in GRMS while using the EFT payments. Amounts have remained unrecovered from suppliers for over four years. Management stated that a recent follow up to recover overpayments was unsuccessful and a request for write-off would soon be made. Management further informed that action is being taken by the office to recruit additional staff to assist with verification functions.

(iv) Reporting on Internal Control

151. The annual internal control reporting process requires all heads of offices and division directors to submit internal control self-assessment checklist to the relevant ADG/DDG for review and validation. The ADG/DDG provides assurance to the Director-General on the functioning of internal controls within their management responsibilities. On the basis of these assurances, the Director-General appends a statement on the effectiveness of internal controls to the annual financial statements. Hence, it is important to ensure that these reports reflect the actual status of internal controls.

152. Accuracy of the internal control reporting was assessed in Audit through examination of the Internal Control Questionnaire (ICQs). It was found that some responses to the ICQs did not reflect the actual state of internal controls. RNE, CAIRO reported that necessary action had been completed by December 2019 in all identified risk areas. However, sample check indicated that in some cases, there was only partial implementation. Similarly, in FNIRQ, of the 37 control points reported as fully implemented in the 2019 ICQ, some control points related to risk assessment during project formulation; monitoring budgetary and programmatic delivery; assignment of roles and segregation of duties; and some aimed at ensuring efficiency, compliance and control in administrative areas were only partially implemented.

153. Similarly, status of implementation of Fraud Prevention Plan 2019 was also not correctly formulated in FNIRQ as it contained inaccurate information. For example, action proposed against risk in travel planning was to ensure that travellers submit “Back to office report” (BTOR) with boarding passes to travel focal point to close Travel Expense Claims in GRMS within 30 days of end of mission. This was stated as achieved. However, we observed that the BTOR’s were not submitted in 10 out of 23 duty travels during 2019 even beyond the stipulated period. In FNSYR, Fraud Prevention Plan 2019 was not implemented actively as only one out of 16 mitigation action was implemented, two actions were delayed, three actions were cancelled and timelines for 10 actions were revised. RNE, Cairo also had not updated its Fraud Prevention Plan with revised target dates for activities that could not be completed by target dates.

Recommendation 25: FAO to strengthen internal controls for ensuring greater accountability and better compliance to embedded control procedures for safeguarding FAO assets and property, ensuring accuracy in reporting on status of internal control, and for ensuring correctness of payments to consultants, suppliers and service providers.

(v) Cash Management

154. There is need for improvement in management of cash in the offices audited. In none of the offices audited, monthly unannounced cash counts were being conducted regularly for having assurance about actual existence of cash in the possession of the custodian concerned. In some offices, cash count was done only when replenishment of petty cash was required.

155. In RNE, Cairo, although Bank Reconciliation Statements were regularly prepared, it was noted that there was a difference of USD 7485 and EGP 2876.56 held in respective currencies as on 31 December 2017, 2018 and 2019 as per the Summary Reconciliation Report between the GL Report balances and Imprest Bank Accounts. These differences have remained unreconciled for more than three years.

156. There were instances of non-compliance of the Manual provision which stipulates that at least once a month, towards the end of the month or when the level of the petty cash account reaches 20 percent of the established level, the Imprest Holder should request for replenishment of petty cash. In FAPAK and FNIRQ, requests for replenishment of petty cash were made when the cash level was less than 20 percent of the approved limit. In some cases, replenishment request was made when the remaining balance of petty cash fund was just 10 percent of the approved level, thereby exposing itself to the risk of cash not being readily available for payment of petty obligations or to the suppliers who do not accept cheque payments.

157. The authorised levels of petty cash (PC) also required review in several offices for possible adjustment based on amounts of monthly utilization. Many of the petty cash/ outposted cash (OPC) accounts in SFS Zimbabwe, FNIRQ, FAPAK and FNSYR had very few transactions and required few replenishments which indicate that the petty cash levels were more than sufficient to cover a month's expense. Holding of funds in excess of requirement exposes the PC/ OPC to unwarranted risk of loss due to devaluation, possible misuse or theft.

158. Review of the cash in transit report of 31 December 2020 revealed that in SFS, Zimbabwe and FRCMR, there were 67 Bank Account payments that remained outstanding for periods ranging from 37 to 343 days.

Recommendation 26: Replenishment of petty cash may be done timely and unannounced cash counts be conducted every month to check the existence of cash in the possession of the custodian at any point of time. Authorized amount of Petty Cash in decentralized offices may be reviewed based on utilization.

(vi) Follow-up on Internal Audit Recommendations

159. There was inadequate follow-up to recommendations of internal audit in FRMLW. It was recommended by the Inspector General that the Office needs to ensure that training in FPMIS is imparted to relevant officials for timely budget revisions, and uploading key reports to provide accurate management updates at the corporate level. However, training records provided to Audit did not indicate that training on FPMIS had been provided to relevant personnel. It was also recommended to ensure that, at least at the year-end closure, long outstanding POs are examined and cancelled as necessary. However, as mentioned in the earlier section of this report, it was observed that there were large number of open POs where the due date of delivery had been exceeded. Internal Audit is an integral part of internal control of any organization and persistence of the above deficiencies highlighted by internal audit indicate a need for greater effectiveness in addressing internal control issues.

(vii) Outstanding Advances

160. Advances given for travel and other miscellaneous activities have to be settled within a specified period. In case any advance remains outstanding for more than three months, it is to be recovered from the salary or any other amount due from the concerned individual. There were instances where advances were outstanding for extended periods without recoveries being effected from salary of individuals concerned, and new travel advances were sanctioned without adjustment of earlier advances.

161. We also noted instances in FRMLW, where the actual due dates for settlement of travel advances go beyond the due settlement date indicated in GRMS because some travel missions get extended beyond the planned date. Similarly, in case of operational advances, due date for settlement of advances sometimes get deferred on account of implementing partners changing the start date of activities. However, these changes were not incorporated and updated in GRMS, thereby failing to ensure correctness of information on GRMS and also failing to optimally utilise the available system functionality for monitoring advances.

Recommendation 27: The established policy on settlement of advances and the eventual recovery after default must be followed stringently and periodic monitoring of travel and other prepayments may be carried out.

4. Human Resource Management

162. For ensuring that decentralised offices function efficiently and effectively, it is important to ensure that the offices are adequately staffed, recruitment processes are completed within stipulated timelines in a fair and transparent manner, and there are adequate opportunities for capacity development of staff through training programmes. We examined these areas in audit for assessing the effectiveness of human resource management.

163. Ensuring capacity building and adequacy of staff in key positions in decentralised offices is an area that deserves attention of the Organization. FRCMR is seriously constrained due to vacancies in key positions. The position of Monitoring and Evaluation Officer is lying vacant which has impacted the ability of the Office to manage its projects effectively. Instances of incorrect booking of expenditure and deviation from prescribed documentation procedures were observed.

164. RNE, Cairo has 24 vacant posts in major support cadres like Gender Officer; Administrative Officer; Programme Officer and Sr. Economist. It has no Professional category officer in Procurement wing and the entire procurement process is being handled by a single Procurement Associate. This official also served as member of the Tender Opening Committee during 2018 indicating lack of segregation of duties in procurement wing which is essential to ensure that an appropriate level of checks and balances govern individual procurement activities to minimize the risk of error or fraud. Most offices need strengthening of procurement function through recruitment of additional personnel to boost human resources capacity.

165. There were instances of long or repeated engagement of temporary staff and engagement of large number of PSAs for regular staff functions in several offices. In FNIRQ, 40 percent of positions in professional category was vacant. There is no Professional category officer in Procurement wing and a Procurement Consultant is in charge of the entire procurement process which is in contravention of FAO Guidelines 2018, which states that although consultants hold the status of "official" of the Organization, they should be recruited to perform the functions of an advisory or consultative nature. Consultants should not be hired to perform the regular functions of staff members of the Organization, nor carry out functions assigned to established posts unless it is as a stop-gap measure to cover the duties of a post that is temporarily vacant.

166. In SFS, Zimbabwe, some key positions like Senior Policy Officer, Land and Water Officer, and Deputy FAOR were lying vacant, thereby limiting the capacity of SFS to effectively deliver the required technical and backstopping support to the fifteen countries in the sub-region. The Sub-Regional Coordinator (SRC) for SFS is also the FAO Representative in Zimbabwe, as well as in eSwatini and Lesotho, under multiple accreditation schemes. These countries are handling large number of projects, some of which are of global or regional coverage. This, along with multiple layers of responsibilities of the FAO Representative, including interactions with counterparts and the donor community, make it necessary to fill up the position of Deputy FAO Representative.

167. The function of Land and Water Officer is important in the sub-region, given that the national governments are constantly faced with the subject and there have been increased requests from SADC (South African Development Community) and Member States for support on land and water issues, taking into consideration that the impacts of climate change in the Sub-Region are mediated through water.

168. While there have been attempts to fill the aforementioned gaps through deployment of staff and consultants on a short-term basis, a sustainable solution is required to ensure that FAO holds and maintains the expected leadership in addressing the Sub-Regional and country priorities as set out during the Africa Regional Conference (ARC).

169. In FNSYR, delays in effecting operational and financial closure of projects were attributed to absence of International Operations Officer, who was recruited in 2020. Expenditure control mechanism in FNSYR was weak owing to absence of an International Operations Officer until 2020, which led to a number of irregularities in payments to consultants. FAPAK did not have an International Procurement Officer until March 2019 and International Operations Officer until April 2020. Delays in project closure were stated to have reduced in FAPAK after assignment of Operations Officer/Head of Operations Unit who provided monitoring and support for ensuring timely operational and financial closures. Similarly, monthly inventory stock reporting was not being conducted till the arrival of International Logistics officer. In FRZIM, human resource capacity need to be strengthened for better asset management.

170. FAO adopted a timeframe of 120 days for recruitment of professional staff members and National Professional Officers (NPOs). In FAPAK and RNE, Cairo, the average time taken in completion of the entire recruitment process was 270 days and 279 days respectively. In none of the cases, the entire recruitment process was completed within the prescribed 120 days. The number of days for recruitment increased from 210 days in 2017 to an average of 302 days in 2018 in RNE, Cairo.

171. FAPAK agreed to shorten recruitment time for those steps under the responsibility of the Country Office. RNE, Cairo stated that efforts are being deployed to develop appropriate HR planning/succession planning frameworks, coupled with appropriate post management practices, which will contribute in securing the timely filling of vacant posts in compliance with the decisions emanating from the Council and the governing bodies in this regard.

172. While efforts proposed to be taken by the decentralised offices for expediting filling of vacancies are appreciated, there is need to review the process for reducing the number of clearances and accelerating response time by the other layers of the recruitment process like Shared Services Centre (SSC), Budapest and HR Division at Headquarters.

173. While it is important to ensure expediency in completing the recruitment process, it is equally important to ensure transparent and competitive personnel selection procedure supported by adequate and systematic documentation. In FAPAK, we noted that the process of recruiting Non-Staff Human Resources (NSHR) needed improvement. In four out of ten cases that were selected randomly for scrutiny in FAPAK, the personnel were hired through non-competitive method without any record regarding the selection process or explanation regarding the choice of the NSHRs. In absence of a well- defined selection process, the objective of recruiting staff through an objective, transparent and competitive selection process is defeated. External audit in its report for year ended 2016 had also recommended that selection processes be adequately and thoroughly documented to prove competitive selection and the corresponding evidence be kept and retained for enhancing transparency. Although this recommendation was reported as having been implemented by FAPAK, we observed that this deficiency continues to persist.

174. Most of the field offices did not conduct any training need analysis nor obtained any training requirements from the concerned managers. As such, training plans were not based on the identified training requirements or skill gaps of the personnel. In RNE, Cairo, FAPAK, FNIRQ, FNSYR and

FRCMR, mandatory training courses for the staff members were not completed. The offices did not have a system of assessing learning outcomes of training programmes for having an assurance that training had achieved their intended objectives and helped to improve delivery of the mandate of the Organization.

Recommendation 28: There should be sustained efforts at filling up vacant positions in a competitive and time-bound manner, while ensuring transparency in the process of selection. Training plans may be prepared based on identification of skill gaps and training needs; a system of evaluating impact of training may be instituted.

5. Asset Management

175. Section 503 of FAO Manual provides the guidelines for management of assets which states that the physical verification of assets of each decentralised office must be conducted in the last quarter every year and the asset register must be verified and updated each year by reporting all donations, disposals and transfers as well as providing all information relating to condition, use and location of all non-expendable assets.

176. It was noted that several decentralised offices conducted physical verification exercise each year without ensuring the completeness and reliability of data in the Asset Register. The Physical Verification of Assets Report of several offices had incomplete information- there were missing serial numbers, tag numbers, location, custodian details of assets. There were instances of assets (16 assets valuing USD 65,791.84 in RNE, Cairo and 7 assets valuing USD 1,87,323 in FNIRQ) not being recorded in the asset register, although they were placed in service during the concerned year before the date of physical verification.

177. In RNE, Cairo, FNSYR and FAPAK, expendable items[11] were incorrectly included in the Asset Register. We note that this is an action for Shared Services Centre- Fixed Assets Group which maintains the global asset register.

178. As per Manual provision, when the Custodian of an asset leaves or transfers within the Organization, the Responsible Officer must ensure that assets for which the Custodian is responsible are formally collected. The change of Custodian must be reported as per internal procedures to be recorded in the Asset Register within one week of the day of the change. In FRZIM, FRMLW and FRCMR, custodian details were not updated in the asset register and assets were shown as assigned to custodians who had left the Organization and were no longer members of staff of these offices.

[11] Non-expendable items are those that have a useful life of at least one year and cost more than USD 1500 per unit' while expendable items are the items that cost less than USD 1500 per unit, which may be used up or consumed' except attractive items. Attractive items are items of equipment of a sensitive nature (i.e. easily stolen or lost) with a cost of USD 500 or more.

6. Enterprise Risk Management

179. FAO has a corporate policy on risk management to ensure that significant risks are identified, assessed, controlled and reported in a way that enhances FAO's ability to meet its objectives and stakeholder expectations. The policy establishes key roles and responsibilities for risk management and defines the risk management process. Although the Offices had prepared risk logs, in some offices action for mitigating identified risks had either not been initiated, or had not been completed by target dates.

D. MANAGEMENT MATTERS

PERFORMANCE REVIEW ON "REGIONAL INITIATIVE TO END HUNGER IN AFRICA"

180. A performance review of the Regional Initiative to end hunger in Africa by 2025 was conducted in November, 2020.

Introduction

181. The Renewed Partnership to 'End Hunger in Africa by 2025' was established in 2012, between the African Union Commission, its NEPAD[12] Planning and Coordination Agency (NPCA), the Lula Institute and FAO. In July 2013, the four partners organized a high-level meeting (HLM) in Addis Ababa, Ethiopia, leading to a Declaration to End Hunger and a Road Map for its implementation. This Declaration was subsequently endorsed at the 2014 African Union summit in Malabo, Equatorial Guinea, and incorporated as the 'Commitment to Ending Hunger in Africa by 2025' in the Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods.
182. The Regional Initiative (RI) of FAO seeks to strengthen the programmes, mechanisms, capacity and delivery of actions, which are needed to operationalize commitments to end hunger by 2025, and to support mapping exercises that identify gaps and determine requisite interventions, to enhance policy dialogue on food security and nutrition, at both regional, as well as country levels.
183. FAO's Strategic Objective 1 'Contribute to the eradication of hunger, food insecurity and malnutrition' and the 'Regional Initiative to End Hunger in Africa by 2025' (RI) overlap in the Africa Region. The focus countries for this initiative are Angola, Chad, Ethiopia, Ghana, Kenya, Malawi, the Niger and Rwanda.
184. The RI has a ten- year horizon for achieving the goal of eradicating hunger in Africa. The initiative is now at the mid-point of the ten- year horizon. The review has been conducted to take stock of the achievements of the initiative at this juncture, to assess the progress made towards achieving the goal, to identify gaps and enable course corrections where needed, and forge new

[12] New Partnership for Africa's Development

initiatives and partnerships towards furtherance of the objective of achieving zero hunger in the region by 2025.

Audit Scope and Approach

185. The review was conducted remotely, by obtaining records/data from FAO's Headquarters at Rome, Regional Office for Africa, from FAO's intranet and from the ERP platforms of FAO viz. FPMIS, PIRES etc. Audit examined the documents/data related to the RI, for the period commencing from the year 2014 (the year of commencement of the Regional Initiative) to 2020.

186. There are 180 projects, initiated under the RI in the African Region, which are either being operated now, or were in operation, during the years 2014 to 2020. Out of this, 35 projects had operations in the eight focus countries. Of these 35 projects, we considered 23 projects, which were aligned solely with Strategic Objective 01 (SO1):'Contribute to the eradication of hunger, food insecurity and malnutrition' for the sample selection. From these 23 projects, we further selected seven projects (constituting 53 percent of total expenditure of the 23 projects) randomly, relating specifically to the theme 'Food Security and Nutrition'[13], for detailed examination[14].

Financial Overview

187. FAO provided the following details of financial resources from regular funding and expenditure incurred there against, relating to the RI, during the years 2014 to 2019, as shown in Table 9 below:

Table 9

(In USD)

Year	Regular Funding from FAO received for RI's implementation *(A)*	Savings from vacant posts *(B)*	Total Financial Resources *(A+B)*	Expenditure incurred against funds received as (A)	Expenditure incurred against funds received as (B)	Total Expenditure incurred
2014	1,369,660	12,585	**1,382,245**	1,369,660	12,585	**1,382,245**
2015	1,840,840	417,525	**2,258,365**	1,840,840	417,525	**2,258,365**
2016	293,697	1,483,890	**1,777,587**	293,697	1,483,890	**1,777,587**
2017	1,703,088	855,749	**2,558,837**	1,703,088	855,749	**2,558,837**
2018	512,427	562,356	**1,074,783**	512,427	562,356	**1,074,783**
2019	1,670,540	533,251	**2,203,791**	1,670,540	533,251	**2,203,791**

Source: Information provided by FAO

[13] As per the Africa Regional Conference (ARC) document (ARC/20/8), *'Africa Region Synthesis of Evaluations 2014-2019'*, published for the 31st session of the ARC, the theme *'Food security and Nutrition'* is defined under the Initiative *'ending hunger'*.

[14] UNJP/MLW/071/EC, GCP /MLW/074/NOR, TCP/GHA/3703, GCP /KEN/089/ITA, TCP/KEN/3704, UTF /RWA/037/RWA, MTF /ETH/100/BMG.

(i) Mainstreaming of '*Zero Hunger'* in FAO's work at country and regional levels

188. The 'Regional Initiative to End Hunger in Africa by 2025' (RI) seeks, inter alia, to achieve the objective of 'Mainstreaming of Zero Hunger in FAO's work at country and regional levels'.

189. It is acknowledged that the Regional Initiative is not a standalone programme and the outcome of the initiative of reducing hunger in Africa is dependent on policies and programmes implemented by FAO, Member Countries, Regional Economic Communities, and development partners. However, FAO has identified some ways by which it aims to contribute towards achieving the objectives of the RI. One of the initiatives identified for this purpose is to mainstream zero hunger in FAO's work at country and regional levels. FAO's performance has been assessed in this context.

190. An analysis of the year-wise break-up of projects, in terms of their year of start, and FPMIS reports on 'Field Programme Delivery by Recipient Region', showed the following year-wise position (Table 10) of the total budget of all projects related to SO1 vis-à-vis the total delivery of all the projects running in African Region, during the years 2014 to 2020:

Table 10

Year	**Total budget of all the projects related to SO1, which got started in the year, in the African Region**	**Total of '*Delivery*'[15] of all the projects running in the African Region**	**Percentage of (a) to (b)**
	(a) *(in million USD)*	(b) *(in million USD)*	
2014	14.04	*Not available*	
2015	12.18	338.0	3.60
2016	25.44	330.7	7.69
2017	48.50	422.4	11.48
2018	19.91	383.9	5.19
2019	28.14	390.4	7.21
2020	15.99	376.8 *(up to October 2020)*	4.24
Total	**164.2**	**2,242.2**	**7.32**

191. Similar analysis of the year-wise break up of projects in terms of their year of start, related to the focus countries of the *'Regional Initiative to End Hunger in Africa by 2025',* and FPMIS reports on *'Field Programme Delivery by Recipient Country',* indicated the following year-wise position of total budget of all the projects related to SO1 *vis-à-vis* the total delivery of all the projects running in the focus countries, during the years 2014 to 2020:

[15] The term *'delivery'* refers to *'actual expenditure plus commitments'*

Table 11

Year	Total budget of all the projects which got started in the year in the focus countries related to SO1	Total of 'Delivery' of all the projects running in the focus countries	Percentage of (a) to (b)
	(a) *(in USD)*	(b) *(in USD)*	
2014	Nil	*Not available*	
2015	1,743,709	48,486,778	3.60
2016	9,043,258	54,197,850	16.69
2017	31,389,983	48,930,309	64.15
2018	4,883,105	51,547,327	9.47
2019	3,788,398	61,173,422	6.19
2020	6,231,000	56,600,976 *(up to October 2020)*	11
Total	**57,079,453**	**320,936,662**	**17.79**

192. It may be observed from Table 11 that the percentage of total budget of all the projects related to SO1, to the total delivery of all the projects running in African Region, during the period 2014 to 2020, was 7.32 percent. The percentage of total budget of all the projects related to SO1, to the total delivery of all the projects running in the focus countries, during the period 2014 to 2020, was 17.79 percent. Further, the year-wise percentages do not indicate an increasing trend in the ratio of projects running under SO1, to the total projects.

193. Given the fact that the RI is one of the major initiatives in Africa, and also in view of the growing concern regarding increase in the absolute number of people facing severe food insecurity in the African region due to several reasons like unstable food markets and commodity prices, economic slowdowns and downturns, the threat from climate shocks, natural disasters, persistent political instability, conflicts and other forms of violence, there is need for more focus on increasing the number of projects contributing to the mainstreaming of zero hunger in the region. The Organization does not have a established "threshold ratio" for determining its suitability or adequacy relative to other equally relevant development priority areas.

194. Management stated that project funding depends on the area of interest of the Resource Partners and that this is beyond the control of the FAO Country Office unless it is a specific project to be funded by a TCP (which would be funded by the Regular Budget of FAO). This indicates a need for greater efforts to achieve Functional Objective 8 of the strategic framework, which seeks to provide special emphasis on "reinforcing corporate capacity for positioning and resource mobilization at country, regional and headquarters levels" as, stated in the Programme of Work and Budget 2020-21. There is need for better advocacy and synergy to ensure that resource mobilization efforts are channelized and built around the RI and to better align it with the strategic framework of the Organization.

195. Management further stated that FAO aims to achieve mainstreaming of hunger principally at the policy and strategic level. Hence, a more appropriate measure would be the food security and nutrition policy processes that FAO has provided support for, or contributed to, at the country and/or regional levels; and/or the number of countries that have mainstreamed zero hunger in their strategic documents.

196. The Results Framework of FAO sets the targets of 'access by all to safe nutritious food by 2030' and 'ending all forms of malnutrition by 2030', under Strategic Objective 1 (SO1):'Contribute to the eradication of Hunger, Food Insecurity and Malnutrition'. It also mentions the following outcomes under Strategic Objective 1:

a. OUTCOME 1.1: Countries made explicit political commitment to eradicate hunger, food insecurity and malnutrition by 2030.
b. OUTCOME 1.2: Countries implemented inclusive governance and coordination mechanisms for eradicating hunger, food insecurity and all forms of malnutrition by 2030.
c. OUTCOME 1.3: Countries made decisions based on evidence for the eradication of hunger, food insecurity and all forms of malnutrition by 2030.
d. OUTCOME 1.4: Countries implemented effective policies, strategies and investment programmes to eradicate hunger, food insecurity and all forms of malnutrition by 2030.

197. Performance of the Organization has been assessed with reference to the above outcomes to arrive at an understanding of the extent to which it has been able to bring in changes at policy level. FAO's Corporate Outcome Assessment 2019-Regional Results for Africa has been examined to analyse FAO's contribution to the outcomes of Strategic Objective 1. The overall results indicate that there was change in 44 percent of the countries in regard to outcome 1.1, 67 percent in regard to outcome 1.2, 15 percent in regard to outcome 1.3 and 35 percent in regard to outcome 1.4 during the period 2015-19. We note that progress towards achievement of outcomes under SO1 needs to be accelerated.

198. Although the report added that FAO's contribution regarding the outcomes 1.2, 1.3 and 1.4 was rated as significant in 90 percent, 96 percent and 86 percent of the countries respectively, however, in policy/ strategic levels in majority of the countries, there is need to review the initiatives and interventions that FAO may need to undertake in the future for bringing about desired and more visible changes at policy level in the countries in the Africa region.

Recommendation 29: FAO may consider: (a) devising a suitable quantitative metric in regard to the 'mainstreaming of zero hunger', in the context of its commitment to 'Mainstreaming of Zero Hunger in FAO's work at country and regional levels' (b) suitably reviewing the ratio of projects, contributing to the 'mainstreaming of zero hunger', in the overall portfolio of projects, which are operational in the African Region, as well as in the focus countries, in the context of the metric so devised (c) the Organization may direct resource mobilization efforts towards projects that contribute to mainstreaming hunger in its work at Country and Regional levels; and (d) consider ways of enhancing policy approaches to position itself better for bringing in desired changes at policy level.

(ii) Convergence of FAO's contributions towards hunger eradication efforts with food security outcomes in the African region

199. The *'Renewed Partnership for a Unified Approach to End Hunger in Africa by 2025',* under the Framework of the *'Comprehensive Africa Agriculture Development Programme (CAADP)',* also known as *'Regional Initiative to End Hunger in Africa by 2025' ('RI'),* aimed to rapidly achieve the following performance targets related to hunger:

i. Eliminating hunger and poverty by 2025, i.e., in the same timeframe as that adopted for the Sustaining CAADP Momentum (SCM) process;
ii. Reducing hunger by 40 percent by 2017, in the countries of full implementation of the partnership's approach;
iii. Improving access to food all year round, reducing the need for external food aid within 10 years;
iv. Prioritizing the need to defeat stunting, especially in children of under 2 years, and nutrition of pregnant women and early childhood;
v. Doubling the productivity of staples within 5-10 years, without compromising the environmental sustainability of farming systems; and
vi. Achieving food waste levels no worse than global averages, with ambitions to further minimize them rapidly.

200. Despite lapse of six years since initiation of the RI, performance evaluation of the above objectives has not yet been conducted to document progress towards these targets.

201. The Report on 'The State of Food Security and Nutrition in the World 2020'[16] mentioned that the number of undernourished persons in African Region increased from 216.9 million in 2015 to 250.3 million in 2019. Further, the percentage of undernourished persons to the total population of the region also increased from 18.3 percent in 2015 to 19.1 percent in 2019. The report also mentioned that the number of persons facing severe food insecurity in African Region increased from 192.0 million in 2014 to 248.5 million in 2019. The percentage of persons facing severe food insecurity, compared to the total population of the region, also increased from 16.7 percent in 2014 to 19.0 percent in 2019. In four (Chad, Kenya, Niger and Rwanda) out of eight focus countries, Prevalence of Undernourishment (PoU) has increased. Except for Ethiopia where POU declined from 24.5 percent in 2014 to 20.6 percent in 2017, decline in PoU in the other three countries has been marginal.

202. As stated in the earlier section, there has not been significant improvement in progress towards outcomes under SO1. On the other hand, the Organization's reports on 'Contribution of Results in the African Region to FAO Corporate Output Targets', for the biennium 2018-19, showed that the achievement of results in the region, against the output indicators of SO1, were more than the targets fixed during the biennium 2018-19. This indicates that there is need to review the targets and indicators for ensuring convergence between FAO's performance vis-à-vis these targets with the overall progress

[16] Published by FAO, IFAD, UNICEF, WFP and WHO

in achievement of outcomes under SO1 in the region. FAO's contributions towards the corporate output targets under SO1 are also not convergent with the food security outcomes at the regional level, as indicated by an increase in the number of undernourished persons and persons facing severe food insecurity, insofar as FAO's global goal of 'reduction of the absolute number of people suffering from hunger' (linked to RI) is concerned.

203. Management responded to this observation, stating that it contributes to, but does not have control over a high-level, long-term development outcome, or results such as Ending Hunger and Malnutrition, adding that food security outcomes require a collective accountability and there is no attribution of any one entity (Government, Development partner, other stakeholders). It stated that it is, therefore, not able to revise its output and outcome targets, to make them any closer to its global mandate of 'reducing the absolute number of people suffering from hunger'.

204. While appreciating the fact that better achievement of global goals and strategic objectives involves shared accountability, as well as contributions by a number of strategic partners, we note that, as a policy and knowledge organization, with a mandate to help countries eliminate hunger, food insecurity and malnutrition, FAO is a natural convener in promoting more coordinated and focused policy actions between countries aiming to implement the 2030 Agenda. As such, it is a key contributor, insofar as the outputs and outcomes linked to Strategic Objective 1 are concerned. We further noted that the adverse food security outcomes at the regional level would appear to highlight a need for all strategic partners and stakeholders, including FAO, to review their contributions, as far as Strategic Objective 1 and FAO's global goal of 'reduction of the absolute number of people suffering from hunger' (linked to RI) are concerned. This would, inter alia, include a review of the steps necessary to achieve greater convergence between FAO's corporate level outputs/outcomes and the food security outcomes in the Africa region, as far as FAO is concerned.

Recommendation 30: FAO may review the targets and indicators for assessing the contribution of results in the Africa region to FAO corporate output targets, for ensuring that its performance vis-à-vis these targets better reflect overall progress in achievement of outcomes under SO1 and the food security outcomes in the Africa region, in the context of its global goal of 'reduction of the absolute number of people suffering from hunger' (linked to RI).

(iii) Stock-taking/assessment of hunger eradication efforts in focus countries

205. Stock-taking exercise/ assessment of hunger eradication efforts had been undertaken through the development of country profiles at the start of the RI in seven[17] of the focus countries. These assessment reports aimed at undertaking a participatory stock-taking assessment of all food and nutrition related policies and strategies of the respective governments of these focus countries, with the objectives of:

[17] No stock-taking/assessment of the food and nutrition related policies and strategies of the government had been carried out in Malawi.

i. Mapping out of all the programs and projects that are aimed at contributing to food and nutrition security,
ii. Critically assess the implementation of these programs and the governance arrangements,
iii. Identifying gaps in these interventions that need improvement, if any, and
iv. Suggesting recommendations for improvement.

206. However, FAO has not yet undertaken any stock-taking/assessment of its own projects, related to hunger eradication efforts, which have been in operation in the focus countries during the years 2014 to 2020. Stock-taking, as distinct from evaluation, should also involve making a quantitative assessment of whether there has been decline in the proportion of malnourished people in the target population/ target beneficiaries. This was also one of the performance targets of the RI, as mentioned earlier. In the absence of any stock-taking/assessment, the impact and outcome of these projects cannot be ascertained in aggregation.

207. Management, in this regard, responded that: (i) under corporate rules, one independent evaluation is mandatory for projects with a budget over USD 4,000,000. This is, however, not required for projects with a budget below USD 4,000,000 (except for projects funded by GEF) (ii) a systematic evaluation of the RI related projects in all countries in the region is a daunting task, in view of their sheer number (more than a hundred). (iii) the Country Programming framework (CPF), fully derived from the UN Cooperation Framework, is the Organization's periodic (4-5 years) planning and programming tool at country level, and sets the basis of its country-level strategic prioritization and overall medium-term country-level programming, based on identified gaps.

208. Management also mentioned that results are usually not reported by project at the corporate level and that a more useful analysis would be to review for each country, the number of projects linked to SO1 and their budgets and expenditures during that period. This analysis was undertaken by Audit and it was seen that except Kenya, Rwanda and Niger, expenditure of projects under SO 1 in the other focus countries was less than 50 percent of their total budget.

Recommendation 31: The Organization may strengthen the process of consolidated stock-taking/assessment of its projects, relating to hunger eradication efforts, which have been in operation in the focus countries, during the period 2014 to 2020, in order to identify gaps and define priorities in this regard, for the remaining period of this Regional Initiative, as well as for assessing the impact and outcome of these projects.

(iv) Dedicated ERP functionality/ link for monitoring, evaluation and reporting of the RI

209. The Organization's Global Resource Management System (GRMS), which is used worldwide for human resource management, financials, procurement and travel management, functions as its primary Enterprise Resource Planning (ERP) system. It is linked to the Organization's Integrated Management Information System (iMIS). Apart from these, there is another bouquet of ERP Satellite Systems, comprising of the following custom applications:

- Budget Maintenance Module (eBMM)
- Country Office Information Network (COIN)
- Field Programme Management Information System (FPMIS), and
- Programme Planning, Implementation Reporting and Evaluation Support System (PIRES)

210. FPMIS and PIRES contain specific sets of data in regard to FAO projects running worldwide. It is noted that, in the report 'Evaluation of the Strategy and Vision for FAO's work in Nutrition – February 2019', the Office of Evaluation, FAO, had observed that '….as yet there is no corporate mechanism in place to consolidate the reporting of FAO nutrition related work across all projects, country programmes and Strategic Programmes'.

211. There is no consolidated and dedicated monitoring, evaluation and reporting mechanism, inbuilt within the existing ERP Systems of the Organization, focusing specifically on the RI, with the capability of readily providing consolidated information to Management, in regard to: (a) listing of all the programmes/projects covered under the RI (b) project-wise financial information, including the sources of funding and details of expenditure, specifically for the projects covered under the RI (c) overall programmatic achievements, as well as indicator-wise, country-wise and project-wise achievements, only for the projects covered under the RI (d) project-wise monitoring and evaluation information, specifically in regard to the projects covered under the RI.

212. Consolidated and comprehensive data, relating to RI, is currently not available on any one of FAO's ERP platforms, with segments of the data being distributed over different ERP Systems. Accordingly, data, as required, has to be derived, using combinations of data from across different ERP platforms, thus rendering the monitoring of the Initiative's performance cumbersome. Availability of consolidated and comprehensive data relating to the RI, at a single point, is likely to enhance the efficiency and effectiveness of the FAO's monitoring mechanisms.

213. Management was of the view that since objectives of RI and SO1 are by and large the same, a preferred approach would be to treat the RI as an integrated component of SO1 for which reporting is available. However, we are of the opinion that although there is high degree of commonality in the objectives, in view of the strategic importance of the RI, it would enhance monitoring effectiveness of the RI if all relevant information is available in a consolidated manner. Besides, SO1 would pertain to all regions, while RI would be specific to Africa. Hence, information specific to RI would need to be culled out from existing data.

Recommendation 32: The Organization may consider the feasibility of creating a dedicated functionality/link, within any of its existing ERP systems, for monitoring, evaluation and reporting of programmes and projects, related to the 'Regional Initiative to End Hunger in Africa by 2025', to enable access to consolidated and ready information in regard to the RI, to various internal stakeholders.

(v) Implementation of Selected Projects

214. Detailed examination of seven projects aligned to the RI that were selected randomly revealed deficiencies in implementation like baseline data not being available prior to start of project activities thereby making impact assessment difficult, slippages in timelines for submission of progress reports, inadequate coordination with implementing partners, and slow project progress on account of externalities, some of which should have been factored in and mitigating action identified during the risk assessment exercise that was undertaken prior to project commencement. In several cases, project activities remained incomplete despite the projects having run almost the entire course of project duration thereby necessitating extension of timelines.

Project UNJP/MLW/071/EC (642897)

215. The European Union, through the FAO and UNICEF, is supporting the Ministry of Agriculture, Irrigation and Water Development (MoAIWD), Malawi in implementing a Nutrition Sensitive Agriculture intervention (under the broader Afikepo Nutrition Programme), towards stunting reduction. FAO holds primary responsibility for the implementation of Afikepo[18], with the support of UNICEF, in close consultation with the relevant authorities in the Government of Malawi.

216. The project has the following objectives:

i. To increase and diversify the dietary intake of safe and nutritious foods, to achieve optimal nutrition, for women of child bearing age, adolescent girls, infants and young children, in the targeted districts.
ii. To strengthen multi-sectoral governance of nutrition, contributing to both national and district development planning and monitoring, as well as informing national level policies.

217. The results expected from the project are:

a. Availability and accessibility to affordable, adequate, diversified and nutritious foods for all seasons, improved for the target groups.
b. Increased utilisation of adequate, diversified, safe and nutritious foods of the Malawi six food groups, for the target groups, taking account of seasonality, cultural acceptability and preferences.
c. An effective food and nutrition security information system, established at national and district levels, which complements other existing information systems and contributes to development planning and monitoring mechanisms.

218. The project started on 01.07.2017 and is to be completed by 30.6.2022. Against the approved budget of USD 27,247,983, expenditure of USD 11,571,852 (only around 42 percent) had been incurred (as on end-October 2020), with the project having run for three years and four months, out of its total span of five years. As per projections, the project should have utilized 68 percent of the annualized budget by the end of the third year (June 2020).

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[18] The Afikepo nutrition programme addresses the problems of undernutrition in Malawi, particularly the under five children and their negative consequences on the cognitive, social and economic development in line with priorities and policy commitments of the Government of Malawi, the European Union (EU) and other associated development partners.

219. Management attributed slow implementation to limited mobility compelled by COVID-19 pandemic, particularly for delivery of extension activities and stated that alternative mechanisms to fast-track implementation are under consideration. It expected expenditure/commitment levels to reach at least 70 percent by June 2021 with the commencement of the rain-fed season 2020/21. While slow implementation due to COVID-19 is acknowledged, it was observed that the second yearly progress report showed that only 4 out of 50 activities, pertaining to the two objectives of the project, had been completed by the end of the second year (i.e., by 30 June, 2019), thereby indicating that the progress was slow even prior to onset of the pandemic. There was delay in conducting baseline survey and baseline data became available only in the second year of project implementation. As a result, progress of the project based on identified performance indicators could not be assessed until the second year of the project period.

220. Though the intended impact of the Afikepo Nutrition Programme in Malawi is to enhance nutrition security in Malawi, there is no data/information on progress made on the two indicators of enhanced Nutrition Security, namely:

a. Prevalence of stunting among children less than 5 years of age in Afikepo districts (targeted at 2 percent decrease per year)
b. Prevalence of undernourishment and micro nutrient deficiencies among women of child bearing age and children under 5, early child development centres and primary school learners and adolescent girls benefiting from nutrition Afikepo (targeted at 2 percent BMI and Anaemia decrease per year)

221. As per the Afikepo Action Document approved by the European Union and the Government of Malawi, the impact indicators would be measured through National Surveys as the project does not control all variables required to reduce stunting and anaemia. Management informed that the Multiple Indicator Cluster Survey (MICS) had been recently conducted in Malawi, and final reports and updates on the indicators such as anaemia and stunting rates for children below five years, were expected to be available in the first half of 2021.

222. Adequate clarity on the extent to which the targeted beneficiaries are benefitting from the project, is of crucial importance for deriving assurance that the project has been able to achieve its intended outcomes. However, although the project is now in the fourth year of its operations out of its five-year span, results of impact assessment are not yet available.

Project GCP/MLW/074/NOR

223. The Project, involving ‘Policy Support for Improved Food Security and Livelihoods’, is currently in operation in Malawi. The ‘expected start date’ and the ‘expected end date’ of the project were 05-Dec-2017 and 30-Nov-2020. The project was intended to have a life span of 36 months, after which it was envisaged that competencies would be strengthened within Ministry of Agriculture, Irrigation and Water Development (MoAIWD) to collect, compile, analyse, store and disseminate relevant agricultural statistics and other information related to food and agriculture for better informed decision making on the intensification of sustainable agricultural production.

224. Project implementation has been slow as evidenced by low budget utilisation. As per the annualized budget of the project, 73 percent of the total budget (USD 750,000) was to be utilized by 2019. However, project delivery in end-October, 2020 was only USD 330, 654 (44 percent).

225. There was lack of proper project implementation direction from FAO and delays in clearance/endorsement of processes by the operational partner, as a result of which implementation of a number of project activities was off-track, as evident in the progress reports. These challenges were further compounded by the COVID 19 pandemic, which resulted in the cancellation of a number of technical missions and activities.

226. The project envisaged a stringent monitoring protocol. To the extent possible, the progress monitoring reports of the project were to build on the already existing MoAIWD and FAO results monitoring framework, wherein relevant delivery managers hold responsibility for data collection, information gathering and reporting. The FAO Office in Malawi was entrusted the responsibility of monitoring the technical and financial implementation of the project at all times, and facilitating the assessment of the project’s outputs and outcomes.

227. Under the guidance and supervision of the FAO Representative and Department of Agriculture Planning Services, the Project Team was to prepare and submit Progress Reports (every six months), which were to include the description of activities undertaken, the progress of the delivery of inputs, the involvement of different parties involved, results achieved, problems and constraints met, plans/targets for the next six months and recommendations. FAO was entrusted the responsibility of presenting these six monthly reports to the Project Steering Committee and forward a copy of the technically cleared Progress Reports to the donor.

228. However, the project had not been monitored regularly, resulting in non-assessment of the progress of activities, in terms of the work plan. Six-monthly progress reports had not been submitted on the due dates, with delays ranging from 4 months to 10 months. Disruptions in project implementation had largely contributed to the delays in preparation and submission of bi-annual reports. Management further added that staff turnover on the project had also meant that proper and close follow-up was not timely, in most cases.

229. Thus, although the project has run the course of its last year of operations, most project activities remain incomplete. A no-cost extension has been requested from the donor. The progress report for the period ending December 2019 indicated that innovative ways like virtual trainings and meetings, realignment of the project budget to ensure that resources are moved to budget lines that can effectively absorb them, would need to be thought of, to utilise the project balance budget and also for delivering the intended results.

Project TCP/GHA/3703 (19/IV/GHA/240)

230. The project, currently in operation in Ghana, has the objective of addressing the challenges that hinder the consumption of nutritious foods by vulnerable populations using food-based approaches. The expected outcome of the project is to improve household food security and nutrition.

231. The project started on 03 June 2019 with end date of 31 May 2021, and, thus, has a life span of approximately 24 months for achieving its intended objectives. The budget of the project is USD 225,000, against which USD 15,292 (around 7 percent) has been expended as at end-October 2020, with the project now being in its second year of operations.

232. FAO stated that the project had started with high interest from the participating regions (Central, Eastern and Greater Accra Regions), but has faced uncontrollable setbacks on account of ban on workshops and restrictions on movement due to COVID-19.

233. The Logical Framework Matrix, available on the FPMIS, shows the project as having the following indicator validations against the two outputs:

Table 12

	Output 1: Increased Public Awareness on the importance of consuming nutrient rich foods	Output 2: Increased production and consumption of nutrient-rich foods
Indicator Validation	Baseline: 0 units (03-Jun-2019) Target: 3 units (31-May-2021) Milestones: None Indicator Status: No progress No Milestones and Indicator progress	Baseline: 0 units (03-Jun-2019) Target: 500 units (31-May-2021) Milestones: None Indicator Status: No progress No Milestones and Indicator progress

Thus, despite the project having completed over a year of operations, there has been no progress in achievement of its targeted outputs.

234. FAO, in its response in this regard, stated that although the project became operational since June 2019, the project document was officially signed by FAO and the government later (in July 2019), and the execution of planned activities happened after the launch of the project on 24 September 2019. Further, the delivery was greatly impeded by the Covid-19 pandemic, limitations in engaging with stakeholders online and LoA employment challenges, which have contributed to the slow progress and low delivery. As per the Work Plan, both the outputs in this project have defined work plan tasks. Activity tracking was, however, found to be incomplete in regard to all nine tasks.

235. FAO stated that it expects significant improvement in progress by the end of 1st quarter, 2021.

Project MTF/ETH/100/BMG

236. This project is currently in operation in Ethiopia, with the purpose of providing support to the Government of Ethiopia to update the National Food Composition Table (FCT) and establishing a database. The project aims to improve the capacities of governments and stakeholders for the allocation and use of financial resources to eradicate hunger, food insecurity and all forms of malnutrition by 2030 under the Strategic Objective 1: Contribute to the eradication of Hunger, Food Insecurity and Malnutrition.

237. The project with expected start date and end dates of 28.02.2019 and 31.10.2021 is funded by the Bill & Melinda Gates Foundation and has a budget of USD 852,424. Delayed negotiations with the main implementing partner, Ethiopian Public Health Institute (EPHI), resulted in delays in launching the project and consequent delay in human resources recruitment. Expenditure (actuals and commitments) amounting to USD 174,154 only (20.43 percent) has been incurred till the end of October 2020.

238. One international senior consultant to oversee the technical implementation of the project, was to be recruited to work 360 full time days on the project (120 days per year, equivalent to 6 months) onsite. Two other international food composition experts, mostly out posted / home-based, were to devote, respectively, 60 and 40 full days each per year, to provide technical support and backstopping.

239. Against this, only one international food composition expert was hired in February, 2020, nearly six months after start of the project. One short-term international expert and one national expert have been hired. The short-term international expert was hired after more than a year of commencement of the project in October 2020. Similarly, the national expert who was to be hired as a full-time national consultant, for the total duration of the project, for overseeing activities and bringing regular technical backstopping to the sub-awarded partners has been hired only in September 2020 i.e., after about one year from the actual commencement of the project. Thus, the project was being implemented without adequate technical support and oversight.

240. In the 'Grant Proposal Narrative', it was proposed to sub-award two contracts –one to Ethiopian Public Health Institute (EPHI) to review the 1,000 food items present in the former FCT and undertake comprehensive analysis of food items/nutrients to be included in the new FCT; and the other to an external certified laboratory for food sample analysis outside Ethiopia when the national laboratory capacity was not met. However, only one Letter of Agreement (LoA) was signed, with EPHI when just one year remains from the three-year span of the project. An external laboratory was to carry out analysis of 50-150 foods and 20 nutrients sampled by EPHI. However, no external laboratory has been hired for this work till the date of audit, since assessment of capacity of the national food analysis laboratory is yet to be completed based on which quantum of laboratory analysis to be outsourced would be decided.

Project TCP/KEN/3704

241. This technical cooperation project is currently in operation in Kenya, with the objective of supporting the national government in development and implementation of the National Food Based Dietary Guidelines (FBDGs). It aims to contribute towards improving nutritional status of Kenyans by assisting the government in four areas of work: collection and analysis of food consumption data, developing and publishing FBDGs, dissemination of FBDGs through Information, Education and Communication (IEC) activities, and helping the government to formulate evidence-based strategic agriculture and nutrition related policy interventions. Its initial budget was USD 143,000, with the start date being October 2018 and the initial end date being September 2020.

242. The envisaged project outcome was to improve access to dietary information for planning and decision making at national and household level. One of the indicators for achieving this outcome was Minimum Dietary Diversity of Women for which a target of 50 percent was fixed. The baseline data in this regard was, however, not available in the project documents/FPMIS.

243. FAO stated that at the project design stage, the initial focus of the Project had been to develop National Food Based Dietary Guidelines (FBDG). Towards the end of the project formulation process, however, the project had been refocused on supporting the Food Consumption Survey on Government's request, as the preliminary step for the development of FBDG. Hence, the indicator 'Minimum Dietary Diversity of Women' would not be a relevant indicator for the project. However, the project document, as well as the FPMIS, had not been edited or updated to reflect this change.

244. The appropriateness of indicators ideally needed to be addressed at the stage of project design itself, as adoption of non-relevant indicators could hamper the further progress and achievement of project targets.

245. Although by November 2020, 84.11 percent of the budget had been expended, a significant number of project related activities remained to be completed. The bulk of the project activities were implemented through a Letter of Agreement (LOA) with the Kenya Medical Research Institute. 63 percent of the TCP funds (USD 90,620) had already been committed to the LOA. Delay in completion of activities has resulted in a no-cost extension of the project to September 2021.

Project GCP /KEN/089/ITA

246. This project, with Italy as donor, has the objective of improving food security and nutrition through empowering local governments and communities while fostering food systems innovations through stakeholder participation. It focuses on two of Kenya's counties, namely Nairobi (largely urban) and Kisumu (having important rural population).

247. The project formally commenced in February 2019 against the expected start date of November 2018, due to delays brought about by the country engagement process, while its NTE date is 25.11.2021. It has an approved budget of USD 2,100,000, against which expenditure of USD 675,735 (32 percent*)* was booked up to October 2020. The project has experienced a number of delays that have affected the timely delivery of achievements.

248. The Project Document envisages reporting progress of the Project through: (i) Six Monthly Progress Reports (SMPR) and (ii) a Mid-term review after 18 months of project operation, to be undertaken by FAO.

249. There was delay in submission of the Six-Monthly Progress Reports:

Table 13

SMPR	Due date	Submitted on
1st	31.03.2019	12.08.2019
2nd	30.09.2019	*overdue*
3rd	31.03.2020	01.10.2020
4^{t}	30.09.2020	*overdue*

250. Management attributed delay in submission of SMPR to the unstable political leadership situation, which made it challenging to document and obtain feedback on progress. While taking note of the position stated by FAO, we observed that the risk of political instability was an assessed risk, for which a risk mitigating action had been specified in the project document, wherein the impact of this risk had been assessed as 'medium low'. The SMPR for the period April to September for 2019 and April to September 2020 were not prepared, with the effect that the status of work done during the above period, even though limited in nature, has remained unreported. Similarly, the mid-term review and evaluation report which was required to be prepared after 18 months of project commencement were not found, although an interim narrative report was available. Non-preparation/non-submission of progress reports has the impact of reduction in transparency in reporting, which could constrain monitoring and initiation of corrective actions according to emergent needs.

251. The envisaged outcome of the project was to make food systems in selected communities in Kenya more inclusive and sustainable across the rural and urban areas. The outcome was to be achieved through four complementary outputs: (1) Food governance (2) knowledge generation (3) community action, and (4) initiatives for scaling up in the focus country and beyond. 17 activities were identified for achieving these four outputs. However, the baseline measurements, in regard to 'current capacity' and 'current income', against which the 'improved capacity' and 'increased income' would be measured, were not available.

Table 14

Outcome	Indicator	Baseline	Target
Food systems in selected communities in Kenya will become more inclusive and sustainable across the rural and urban areas	***Number of food system actors (disaggregated by gender) aware of sustainable practices on production, processing, diets and waste management.***	To be decided	**2,000** *(In addition to baseline)* people *(at least 40 percent women)* with improved capacities to implement selected food system activities by the end of the project
	Increased income generation opportunities for women, youth and migrants as a result of project intervention	To be decided	At least **100** women, youth and/or migrants benefit with increased income *(of at least 20 percent)* by the end of the project

252. Management stated that, since the actual project implementation started later than the stipulated time, the baseline data had not yet been collected. The process of beneficiary identification and baseline data collection was further delayed following the onset of the Covid-19 pandemic. Management stated that baseline data would only be available once the beneficiaries are identified. However, identification of beneficiaries was not done before start of the project. The baseline data is now proposed to be collected in the first quarter of 2021.

253. As per the project document, a Project Inception Report was to act as baseline for the Project. The six-monthly reports, which were to follow, were required to identify achievements based on the objectively verifiable indicators. Thus, the baseline measurements should have been established prior to the start of project interventions to enable unambiguous assessment of effectiveness of the project.

Without any baseline being established at the inception stage, it does not appear feasible to accurately assess project performance against the set targets.

Project UTF/RWA/037/RWA

254. This project is currently in operation in Rwanda, with the purpose of providing 'Technical assistance to the Sustainable Agricultural Intensification and Food Security Project'. The objective of the project is to increase agricultural productivity, market access and food security in targeted rural areas. A Memorandum of Understanding (MOU) was signed with Rwanda Agriculture and Animal Husbandry Board (RAB).

255. The project has four deliverables:

(i) Strengthened farmer organizational, productive and farming as a business skill

(ii) Improve capacities to produce, access and utilize nutritious foods at the household level

(iii) Essential capacities developed for the selection, operation and management of small-scale irrigation technologies

(iv) Knowledge management, learning and coordination improved.

256. Against the start date of 01.11.2018, the MoU with the funding agency RAB, was signed in June 2019, and the first payment was received in November 2019. The project's expected end date is 01.11.2023. It has a budget of USD 1,500,000 and expenditure (actuals and commitments) of USD 608,088 (40.54 percent) had been incurred on the project till date of audit.

257. The project had six outcome indicators, out of which baseline data in respect of two indicators were not available. In the absence of the requisite baseline data, the manner in which the progress/ achievements can be calculated is not evident.

258. Further, while expenditure of USD 608,088 has been incurred on the project till date, the Project Progress Report for the period November 2019 to August 2020 indicated that no progress had been made in regard to any of the indicators. Further, the 'Quality Assurance' report, relating to the 'Logical Framework Matrix Status' of the project, as available on FPMIS, also showed the current status of all these indicators as 'not yet updated'.

259. In response, FAO stated that despite the Covid-19 restrictions, there has been some progress since September 2020 with regard to some of the indicators, adding that a catch-up plan had been prepared to speed up the implementation of the project. FAO also informed that the baselines for two indicators would be set through survey data, and the baseline data would be available before January 31, 2021.

Recommendation 33: FAO may improve delivery of projects under the Regional Initiative for ensuring that project outcomes are achieved in a time-bound manner.

Conclusion

260. The Regional Initiative was started with a ten-year horizon to end hunger in the Africa region. Given the strategic importance of the RI, and given the fact that malnutrition and hunger has increased

in the Africa region due to various factors, it is important to take stock of the progress made, identify gaps and prepare a roadmap for the remaining period of the RI. Analysis of the progress made, in particular in the eight focus countries indicates a need for more efforts for streamlining hunger in FAO's work at country and regional level. There is need to ensure stringent monitoring and better delivery of projects under the RI that are in operation to ensure that the objectives of the RI are achieved to a perceptible extent and in a time-bound manner.

PERFORMANCE REVIEW OF PROJECT PLANNING, MONITORING AND EVALUATION

261. A performance review of Project Planning, Monitoring and Evaluation was conducted in January-February 2021.

Introduction

262. FAO has a mandate to improve nutrition, increase agricultural productivity, raise the standard of living of rural populations and contribute to global economic growth. The Strategic Framework outlines the Organization's vision and sets the Strategic Objectives (SO), outcomes, and outputs in terms of hunger eradication and agricultural development. Projects are the primary means through which FAO achieves its strategic objectives. Therefore, efficient and effective management of projects heavily impacts the extent to which FAO is able to achieve its objectives and is crucial for safeguarding the reputation of the Organization.

263. Project Management is one of the crucial business processes of the organization and projects are funded by voluntary contributions from Member Nations and other funding partners. There were more than 2000 operationally active projects as of December 2020 across the world. Geographical spread of new projects approved during 2018-20 was as follows:

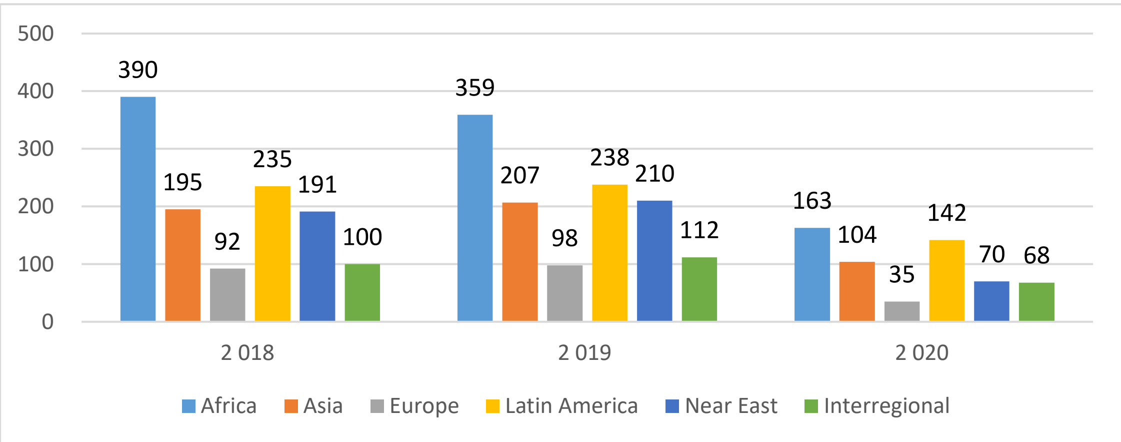

Figure: 3

Audit scope and Methodology

264. The performance review was undertaken to assess the efficiency and effectiveness of the existing framework of project management, identify gaps, and make recommendations for improving project delivery. The review was undertaken to derive reasonable assurance that projects were planned in line with the mandate and policies of FAO, and priorities of Member States; projects were implemented efficiently, and for assessing the effectiveness of the corporate oversight mechanism for monitoring project delivery.

265. The Organization is in the process of developing a new IT solution- PROMYS (Project Lifecycle Management System initiative) for managing all phases of the project lifecycle. The new system, which will replace the existing project management tool FPMIS (Field Project Management Information System) is aimed at providing up-to-date solutions for improving the way FAO manages its projects, right from the stage of project conception until final closure. The performance audit was aimed at identifying functionalities in FPMIS that need improvement and suggesting enhancements and additional features to be considered for incorporation in the upcoming system, PROMYS.

266. Audit was conducted remotely by obtaining records/data from FAO's intranet and from the ERP platforms of FAO *viz.* FPMIS and iMIS. The sample comprised of the following:

- All projects approved during 2018-2020,
- All projects under implementation as on 31 December 2020 and all projects closed during 2018-2020 (irrespective of the year of approval)
- All projects which are under implementation for more than five years as on Dec 2020.

267. 170 projects were selected for detailed analysis (34 newly approved projects, 69 ongoing projects, 58 closed projects, and 9 projects that have been under implementation for more than 5 years) on the basis of risk assessment of different categories / stages of projects.

PROJECT PLANNING

(i) Policy for according priority to focus countries

268. Since 1971, the United Nations has recognized least developed countries (LDCs) as a category of States who are deemed highly disadvantaged in their development process for various reasons. The current updated LDC-list has 46 countries. As a policy, the concessions associated with LDCs include development financing and technical assistance. FAO's assistance through its Technical Cooperation Programme (TCP) and Trust Fund Projects (TFP) to these disadvantaged countries assumes greater importance as it is the custodian UN agency for 21 SDG indicators and is a contributing agency for a further five SDG indicators.

269. FAO has a list of Low Income Food Deficit countries (LIFDC). As of 2018, there were 51 countries in the LIFDC list. 37 countries find place both in the UN's LDC list and FAO's LIFDC list. During 2018-2020, these 37 countries, with about 13 percent of global population, received FAO

projects worth USD 1,187 million, which constituted 36.25 percent of the total new field project approvals during this period.

It was also found that the top 12 recipients of FAO's projects during 2018-2020 are neither included in the UN list of LDC nor in FAO's list of LIFDC. These countries, outside LDC and LIFDC, received projects worth USD 366.33 million, which was 11.19 percent of the total new approvals during this period. This indicates a need for a clear strategy to turn greater attention to disadvantaged countries.

270. The TCP Manual (2009) lists 112 countries as Special Attention Countries for TCP projects. This list has not been reviewed after 2009. We further found that till 2016/17, the Organization had a list of 78 countries identified as "Focus Countries' and had facility in FPMIS for corporate level monitoring of projects in these countries. However, the division of countries into focus and non-focus countries has been discontinued since 2017, since, as explained by Management, having a large group of countries rendered the concept less effective. Management stated that they now work through Country Programming Framework (CPF) of Member Countries and accorded special attention in the new Strategic Framework to LDCs, LIFDC, Land Locked Developing Countries (LLDC), Small Island Developing States (SIDS), and Lower Middle Income countries with high incidence of poverty and food insecurity.

271. There are 96 countries that are included in one or more of these categories (LDCs/LIFDCs/LLDCs/SIDCs). We examined the share of these countries in total Trust Fund Projects as well as TCPs and found the following:

- The total field project expenditure in the 96 countries increased from USD 415.93 million in 2016 to USD 562.31 million in 2020. However, this expenditure, as proportion of total field project expenditure marginally declined from 50.90 percent in 2016 to 49.99 percent in 2020.
- Despite marginal increase in the total project expenditure in these 96 countries during 2016 to 2020, expenditure under Trust Fund projects declined from USD 37.15 million (4.54 percent of total field project expenditure) in 2016 to USD 30.26 million (2.69 percent of total field project expenditure) in 2020.
- The increase in the total field project expenditure in these 96 countries was due to higher outlay under TCPs which increased from USD 378.78 million in 2016 to USD 532.04 million in 2020.

272. Management stated that there is no formal 'planning' of Trust Fund projects and these largely depend on donors' priorities. We are of the view that there is need for better advocacy and synergy for channelizing resource mobilization efforts in the disadvantaged countries in terms of Trust Fund Projects and to better align it with the strategic framework of the Organization. This would also ensure furtherance of the Functional Objective of the Organization to give special emphasis to business development and market analysis for better positioning in countries where FAO's current portfolio has untapped potential.

273. Management further stated that LDCs, LIFDC, LLDCs and SIDs, and Lower Middle Income countries with high incidence of poverty and food insecurity are trackable in corporate systems, and

consideration will be given to include specific iMIS views related to results achieved with FAO contribution, resources mobilized and delivery.

Recommendation 34: FAO may review the list of Special Attention Countries for taking up TCPs, and direct resource mobilisation efforts for taking up greater number of Trust Fund projects in disadvantaged countries.

(ii) Country Programming Framework

274. All countries receiving FAO support are required to have Country Programming Framework (CPF). The CPF is a corporate effort led by the FAO Representatives and is prepared in collaboration with the government of the country concerned with support of Decentralized Offices and Headquarters. Any exception must be proposed to the ADG/Regional Representative (RR) by the FAO Country Representatives (FAOR).

275. A CPF defines the priorities for collaboration between FAO and the government and the outcomes to be achieved in the medium-term (4-5 years, aligned to national planning cycles) in support of national agriculture, rural development and food security development objectives. Accordingly, the CPF outlines the expected, sustainable results to be achieved by FAO within the context of the priority development objectives set by the countries. These results establish a strategic link between the country's development goals, FAO's Strategic Framework and Medium Term Plan (MTP) and outline the input of FAO to the UN Country Programming Process.

276. The status of CPF of 152 countries where FAO has projects was reviewed and it was noted that seven[19] countries did not have CPFs and in seven[20] other countries, the CPF had ended between 2016 and 2019. Further, there were 41 more countries whose CPFs ended in 2020. During 2018-2020, FAO approved 104 projects with a budget of USD 167 million in 10[21] of the 14 countries which either did not have a CPF or their CPF had ended during 2018-19. Management stated that for Yemen, CPF was not possible due to the complex political context and CPF for Kosovo, Turkmenistan and Qatar would be formulated once the United Nations Sustainable Development Cooperation Framework (UNSDCF) is finalized; formulation of CPF for South Africa was under progress and formulation of new updated CPF for 48 other countries, was under process/ would be formulated once the UNSDCF is finalized. Management further informed that between December 2015 and December 2020, 39 CPFs were evaluated. We, however, found that the 39 Evaluations undertaken by Management included only 12[22] out of the 48 CPFs that ended by 2020.

277. CPF plays a pivotal role in planning new projects and aligning them to national priorities. It also helps in planning mitigating actions for known risks, thereby improving chances of project delivery.

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[19] South Africa, Kosovo, Turkmenistan, Kuwait, Qatar, Syria and Yemen

[20] 2016 (Argentina), 2017 (Brazil, Costa Rica and Kazakhstan), 2018 (Mexico) and 2019 (Montenegro and Timor-Leste)

[21] Kosovo, South Africa, Syria, Yemen, Kazakhstan, Argentina, Brazil, Costa Rica, Mexico and Timor-Leste

[22] Timor-Leste, Mexico, Columbia, Tunisia, Indonesia, Libya, Morocco, Ethiopia, Armenia, Lebanon, Georgia and Guyana

Recommendation 35: FAO may monitor the formulation of Country Programming Framework (CPF) where the CPFs have either not been formulated or have expired. It may also be ensured that CPFs are evaluated with reference to the priorities envisaged by the respective countries.

(iii) Projects under pipeline for a long period

278. A project is considered to be in "Pipeline" during the planning stage. After identifying the problem (or opportunity), and preparation and endorsement of CN, a pipeline entry is made in FPMIS. Project formulation, funding agreement with the donor and recipient country, appraisal and approval are the major activities that take place in the project pipeline, after which the project becomes operational.

279. The "Status History" of 170 sampled projects in FPMIS indicated that in 35 projects (22 percent) there were considerable delays, ranging from 6 to 49 months between the date of pipeline entry (idea pipeline/CN date) and the date of approval of the projects. Of these, 16 projects were in pipeline for one to 4 years.

280. Expeditious approval of projects in pipeline is critical for ensuring timely commencement of project activities. While it is acknowledged that some processes would depend on donor schedules and priorities of the recipient governments, projects remaining in pipeline for periods exceeding one year deserve attention of corporate management as this impacts delivery of FAO's mandate. Projects remaining in pipeline for prolonged periods may even lose their contextual relevance and may no longer be necessary. It was observed in several field offices that the status of a large number of "pipeline" projects had not been reviewed/updated at regular intervals. Detailed examination by Audit of the reasons for the projects remaining in pipeline for extended periods revealed that in several cases (10 projects in FRCMR and 7 projects in FRZIM), the projects were no longer feasible for a variety of reasons and should have been removed from the database in FPMIS.

281. Therefore, there is need to review such projects regularly for ensuring that there is active follow-up, and interventions, wherever required, are initiated on time. It may also be considered whether project formulators should be advised to make pipeline entries only after confirming resource availability and/or request letters from government or other donors, to prevent projects remaining in pipeline for extended periods.

Recommendation 36: FAO may strengthen the FPMIS tool "FPSN pipeline monitoring" to ensure yearly monitoring and review of pipeline projects and improve guidance on pipeline management by requesting project formulators and Budget Holders to review and update pipeline projects status in regular intervals for ensuring that these projects are still under active formulation.

(iv) Logical Framework Matrix and Work Plan

282. Logical Framework Matrix (LFM) is a management tool that involves identifying strategic elements (inputs, outputs, outcome and impact) and facilitates in planning, execution and evaluation of a project. The work plan is a planning and management instrument which is developed with the primary objective of operationalizing and implementing the Logical Framework Matrix (LFM). It lists the output and associated activities along with timelines. The work plan should be used as a dynamic instrument that drives work towards results and defines roles, responsibilities, resource requirements and use.

283. FAO's "Guide to the Project Cycle Operational Modalities" provides that the Standard Project Document should include 'Logical Framework Matrix' (LFM) and 'Work Plan' as mandatory Annexes for projects above USD 500,000. It is highly recommended to do the same for projects below that amount, especially when budget revisions upwards of USD 500,000 are foreseen, as this would facilitate additional work downstream. However, uploading the LFM and Work Plan in FPMIS is not mandatory, but recommended. It was noted that as of 1 February 2021, FPMIS displayed LFM of only 58 percent of the projects and only 55 percent of the projects had a Work Plan.

284. Management stated that LFM was not made mandatory as the FPMIS tool had not been updated since its creation in 2012, and data entry for these tools is very time-consuming and represents a high cost (in terms of staff time). They do not offer sufficient analytical capabilities in their current form to support the monitoring function and therefore many Budget Holders (BH) or Project Task Force (PTF) members prefer using shadow/off line monitoring systems. Further, continuing such data entry was not deemed sustainable in times where the Organization was requested to shift resources to support project delivery during COVID-19 pandemic. Hence insertion of LFM and Work Plan in FPMIS was made voluntary.

285. On the basis of Management response it is noted that since these tools were not found to be efficient, there was a need to either update them or explore the possibility of enhancing them or replacing them with better and more efficient tools for monitoring progress of projects. Since uploading of LFM and Work Plan in FPMIS is not mandatory, any change/revision of LFM and Work Plan done by the BH followed by budget revision is not available at a glance for corporate management. Until the Quarterly/Half yearly/Annual/Terminal Reports are uploaded in FPMIS by the BH, the corporate management has no means of monitoring project implementation and ensuring accountability of the BHs in the field offices. This, coupled with the issue of not uploading progress reports on FPMIS (discussed in subsequent sections) has resulted in a situation where monitoring of project progress is largely left to the BH.

Recommendation 37:

(a) The new system PROMYS that is targeted to be rolled out by end 2022, has the functionality for uploading LFM and Work Plans.

(b)The LFM and Work Plans may be redesigned to make them user friendly without compromising on the information/content required for efficient project monitoring.

(c) Insertion of LFM and Work Plan in the ERP should be made mandatory for projects above USD 500,000 to enhance accountability and improve monitoring.

PROJECT IMPLEMENTATION AND MONITORING

286. Implementation involves mobilizing and managing inputs and resources, coordination and ensuring sound financial, technical and operational management. Successful implementation of projects depends not only on the efficiency of the officials in the field, but also on effective monitoring at the corporate level.

Financial Management

287. During project implementation, the BH must ensure that fund is available before incurring any expenditure, that spending is in line with the conditions of the resource partner agreement and does not exceed the cash actually received. If cash available is inadequate and additional funds are due from the resource partner, the BH should contact the Finance unit to arrange for a call for funds. BH is responsible for budget management, monitoring and revision which constitute a substantive, integral and essential component of project management. The BH reports, available in the Business Intelligence Tool/Data Warehouse and in FPMIS, provide information about delivery against detailed budget and it should be reviewed regularly for ensuring that expenditure incurred are within budget and cash received. The only projects which are allowed to incur cash deficits, but not budget deficits, are those that are financed by the European Council, where the last payment is made after final reporting, in accordance with the framework agreement with the donor. The BH is also accountable for preparing annual budget revisions if necessary, and provides delivery estimates in FPMIS twice each year (in April and September) for every ongoing project. In the event in which, for whatever reason, an extra-budgetary funded project finishes in a cash deficit position and no agreement can be reached with the resource partner as to how to fund the deficit, the project shall be closed and the project deficit may be authorized for write off against the General Fund as an irrecoverable debt.

288. 57 sampled projects, where NTE date was over, were examined and it was noted that:

a. In five cases, the delivery exceeded the budget. In all these cases, system generated triggers were sent for "delivery exceeding the budget"**.** The expected action after triggers are sent, is to ascertain the correctness of the information in FPMIS and review the latest budget revisions. However, no budget revisions were undertaken in these cases as per information available in FPMIS.

b. There were five projects where the delivery exceeded the cash plus interest earned. Except in one case, no triggers were sent for "delivery exceeding cash". Four out of these five projects were EC funded. Since the terminal reports were submitted in all cases, the last payment should have been received as per the framework agreement. However, the projects continue to remain cash deficit and none of them have been financially closed. Financial closure is pending for a period ranging from 6 to 18 months since their operational closure.

c. There were 11 projects that were financially closed between December 2017 and December 2020 with excess cash which had not been returned to the donors as on date of audit.

289. Based on our analysis, it is evident that more checks need to be in place for ensuring that project deliveries are within the budget and cash received. It must be ensured that expected action is initiated immediately after triggers are generated when delivery exceeds cash/budget. Cases where triggers were not sent out indicate lapse of the system and need to be investigated for corrective action.

Recommendation 38:

(a) Corporate monitoring of performance of the BHs be strengthened for ensuring that project deliveries are within the approved/ revised budget and cash received and there is timely adjustment of unspent cash balances; and

(b) Validation checks should be embedded in the ERP to disallow project deliveries to exceed the budget and cash received (with exceptions for cases that are governed by specific funding arrangements as in cases of USAID and EU funded projects).

290. While taking note of Management's concern regarding practicality of implementation of validations checks in view of budget fungibility rules varying across donors, we are of the opinion that it is important to ensure that these rules are mapped and validation controls embedded for broad categories of donor agreements. This is essential for ensuring better financial management of projects.

291. FAO's assurance to consider these recommendations in the context of the design and implementation of the new PROMYS system is appreciated.

Monitoring budget reallocations

292. Budget is the cost equivalent of the work plan. Budget revisions are the responsibility of the BH and all revisions to project budget should be reviewed by the Funding Liaison Officer (FLO) and formally agreed to by the donor. According to the Budget Fungibility Rules of FAO, there are no statutory limitations on BHs concerning the prudent reallocation of allotments among different types of expenditure (e.g. staff cost, GOE, travel, etc.) to implement the work plan.

293. 81 projects sanctioned in 2016 and closed in 2020, were examined by Audit to see the extent of budget revisions and reallocations between budget components and it was found that 45 projects (55 percent) underwent budget revisions during implementation. In 21 projects (27 percent), budget was increased, with nine of them having an increase of over 25 percent of the original budget. In 24 projects (28 percent), budget was reduced with two of them having a reduction of over 25 percent of the original budget. Although 36 projects were completed without any budget revision, full budget fungibility allowed the BH to increase/ decrease budget allocations for line items, make provision for new components, withdraw allocations for some components, and exceed budget of some components by as much as 67 percent, while spending less in others. These point to significant changes in the overall project budget as well as reallocations between different components of the budget without altering the overall budget.

294. Although Management stated that re-allocation of budget lines reflects standard good practice of updating work plans during implementation and the Funding Liaison Officers (FLO) have been entrusted the responsibility to ensure that changes in budgets or work plan are in line with the funding agreement, Audit is of the view that there is need to strengthen this arrangement for ensuring that due process has been followed. There have been instances of donors not agreeing to revise budgets on account of budget lines having been exceeded without pre-approval, leading to protracted communication and consequent delay in project closure. Hence, reallocation of budget lines without some degree of oversight or scrutiny may not reflect standard good practice. FAO may consider incorporating a validation check in ERP whereby FLOs would be required to certify on the system that reallocations have been done as per funding agreement and has the approval of donors. This would enhance accountability of process owners and also ensure that all pre-requisites have been fulfilled prior to any changes/ reallocations.

295. Since budget is the cost equivalent of the work plan, any significant change in a project's budget or components of budget would lead to alteration of work plan which had been originally approved by FAO's senior management after wide deliberations at the planning stage. Therefore, the present system of delegating full powers to the BH and FLO without any corporate level monitoring may not be in the interest of ensuring efficient project delivery. For this, FAO may consider fixing a threshold beyond which reallocation between budget lines would require corporate scrutiny and approval, including all cases where full budget fungibility is permitted as per funding agreement. System checks need to be incorporated, not for disallowing budget re-allocations, but to provide for review of all projects that have undergone budget revisions or reallocations beyond the threshold, and in the larger interest of strengthening oversight.

Recommendation 39: FAO may

(a) Incorporate a validation check in ERP whereby FLOs would be required to certify on the system that reallocations are as per funding agreement and has the approval of donors

(b) Establish a threshold beyond which reallocations between budget lines would require corporate monitoring and approval.

296. FAO has agreed to consider these recommendations in the context of the design and implementation of the upcoming PROMYS system.

Monitoring of low delivery / fund shortage projects

297. The Field Project Support Network (FPSN), is a monitoring tool of FPMIS that allows managers to monitor projects within their respective Region / Sub-region from an operational perspective to ensure that projects remain within their delivery, financial management and reporting obligations. FPSN monitoring framework envisages that:

- Projects having completed half or more of the project duration, but with delivery less than 30 percent of cash / budget, are flagged as '*Low Delivery Projects'*. These projects are red flagged in iMIS to enable monitoring.
- Projects where the delivery is more than 80 percent of cash received are flagged as '*Call for funds required*' and projects where delivery exceeds cash received are flagged as '*Urgent call for funds required*'. These projects are yellow flagged and red flagged respectively in iMIS to enable close monitoring.

298. FPMIS data on projects active as of 1 January 2021 was analysed and it was observed that 109 projects, wherein the delivery was less than 30 percent despite lapse of 50 percent or more of the project duration had not been flagged as '*Low Delivery Projects*'. This is because low delivery is calculated by FPMIS using progress of expenditure with reference to cash received from donor, and not with reference to overall budget of the project, which means that a project will be flagged as "*Low delivery"* only if the progress is below 30 percent of cash received after more than 50 percent of project duration. However, release of cash tranches by donors are usually linked to progress of projects; and if progress is low, cash receipt tends to be low. Consequently, projects which are not progressing in line with budget / Annual Work Plan, may incorrectly show good progress with reference to low amount of cash received from donors which could lead to non-flagging of projects requiring attention and further escalation. Similarly, 135 projects[23], wherein the delivery exceeded 80 percent or where delivery was 100 percent of cash received, as of 1 January 2021, were not flagged as '*Call for funds required*' or '*Urgent call for funds required*', respectively.

299. There is a stipulation that the project would need to be in the defined condition for 30 days or more for being flagged for attention of Senior Management and allowing escalation and follow-ups by the Regions or HQ with the respective budget holders. We are of the view that this stipulation of 30 days needs to be reviewed as this may result in delay in flagging 'low delivery' and 'fund shortage' projects and derail their progress further.

Recommendation 40: To enhance the effectiveness of FPSN monitoring and ensure timely remedial action from an operational perspective-

(a) The upcoming ERP may have the provision to link delivery/ expenditure with budget instead of with cash received, for correctly flagging low delivery projects.

(b)The stipulation of the project remaining in the defined condition for 30 days may also be reviewed.

(c) All projects, excluding those for which last tranche of fund is to be received after its completion, may be flagged for priority action as soon as expenditure exceeds 80 *percent* of cash received.

[23] Excluding 67 EU funded projects, where the last tranche of funds would be received only after completion of the project

Delays in operationalizing projects

300. A Project is declared as "*Operationally Active*" after agreement with donor and recipient country has been finalised and involves the following actions:

i. Formulator, supported by Funding Liaison Officer (FLO) where necessary, ensures all relevant project information and documentation are correctly inserted /uploaded into FPMIS
ii. FLO endorses the project budget in the FPMIS. This automatically triggers the change in the project status to "*Ongoing – Operationally Active*".
iii. Finance Unit (CSF) opens project account in the GRMS. This step enables the creation of an "*activity code*" in the GRMS for the project to enable the Budget Holder to initiate any transaction in the GRMS.
iv. FLO prepares "designation memo" designating Operational and Budget Holder Responsibility and the DDG approves the "designation memo".

301. 13 out of 27 new projects approved during 2020 were examined in Audit to study the time lag between (a) the Entry on Duty (EOD) date recorded in the FPMIS, (b) the "Operationally Active" date and (c) the date on which the Finance Unit (CSF) opened project code in the GRMS to facilitate incurring of expenditure using the approved budget. The following was observed:

- 4 of the 13 sampled projects (31 percent) became Operationally Active within a month of EOD.
- In 4 projects (31 percent), the Operationally Active date was before EOD.
- In five projects (38 percent), the Operationally Active date was 89 to 327 days after recorded EOD. The average time taken in these cases was 190 days.
- Only 4 of the 13 sampled projects (31 percent) received the mandatory Project Code in GRMS (Oracle Activity Code) within a month of becoming operationally active. The remaining nine projects received the project code in the GRMS after a delay of 53 to 241 days of becoming Operationally Active and average time taken in respect of these projects was 115 days. The projects became operational only after receiving GRMS code as it is a prerequisite for incurring expenditure.

302. The average of 190 days taken in 38 percent of the sampled projects to become operationally active after EOD is a significant delay. Similarly, the average of 115 days taken in 69 percent of the sampled projects to become actually operational with the GRMS code after the operationally active date is also a significant delay and points to a need to fix timelines for completing the activities after finalisation of agreement with donor and recipient country since these processes are internal to FAO and do not depend upon donors and government.

Recommendation 41: FAO may consider evolving an enhanced monitoring mechanism to reduce the time lag between approval date and the actual commencement of projects.

Delay in implementation of projects

303. One of the Key Performance Indicator's (KPI) listed in the Programme of Work and Budget 2020-2021[24] sets a target to close 70 percent of projects on time by 2019 and to close 80 percent of projects on time by 2021.

304. Performance of FAO in terms of timely execution / implementation of projects was analysed using the data on projects approved during 2018 and projects closed during 2020. FAO approved 861 new field projects during 2018. It was observed that over the next two years (2019 and 2020), 417 projects (48 percent) got their NTEs extended by periods ranging from one month to 48 months. The analysis indicates the following:

Table 15

Number of projects with NTE extension up to three months	34
Number of projects with NTE extension above three months and up to six months	94
Number of projects with NTE extension above six month and up to one year	146
Number of projects with NTE extension above one year	143
Total projects approved in 2018 and allowed NTE extension during 2019 and 2020	**417**

305. We found that the extensions were granted to take care of delays in implementation, change in scope of the project, funding delays, etc. Out of 692 projects that were closed during 2020, 221 projects (32 percent) were closed well beyond their NTEs. The analysis shows the following:

Table 16

Projects with NTE prior to 2016, but closed during 2020	10
Projects with NTE during 2016, but closed during 2020	7
Projects with NTE during 2017, but closed during 2020	18
Projects with NTE during 2018, but closed during 2020	64
Projects with NTE during 1 Jan to 31 Oct 2019, but closed during 2020	122
Total Number of projects closed belatedly	**221**
Total number of projects closed during 2020	692*

*Includes 620 projects closed unequalised[25] and 72 projects closed to be claimed[26]

306. Although Management attributed delays in 2020 to the COVID-19 pandemic, it needs to be noted that 293 projects approved in 2018 were given NTE extension during 2019, i.e, before the outbreak of COVID-19 pandemic. Therefore, the pandemic cannot be considered to be a major reason for NTE extensions.

307. While being aware of the challenges faced by FAO in project implementation, based on our finding and Management's response, we are of the view that FAO's performance on timely delivery of projects needs improvement. Issues relating to coordination with host government and donors, setting

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[24] (KPI- 8.3. B)

[25] Projects "Closed Unequalized" have budgets in excess of total delivery and for which no formal equalization has been performed to reduce the budget to the level of expenditure.

[26] Projects which are "Closed to be claimed" are projects where total delivery exceeds total donor commitment.

unworkable implementation deadlines and NTE are areas to be addressed by FAO. Considering the fact that there could be issues beyond Management's control, we understand that the target that has been set is to close only 70 percent and 80 percent of projects on time in 2019 and 2020 respectively. But as of November 2020, we noted that only 58 percent of the projects were closed within 180 days of NTE.

Recommendation 42: Appropriate risk-analysis regarding project implementation be undertaken and specialized trainings on Project Cycle to field personnel be imparted for improving coordination with host governments and donors.

Slow Moving Projects

308. FPMIS data indicates that there are a large number of projects where project delivery has been slow. 12 out of 241 slow moving projects were examined in Audit and the following were observed:

- In 11 slow moving projects, the milestone targets set were not achieved within the original NTE date. In eight projects, the milestone targets were not achieved even within the extended NTE.
- The delivery of the projects as against the budget was very low, ranging from 17 percent to 38 percent, despite extension of NTEs in respect of eight projects. Delivery should have been in the range of 76 percent to 94 percent as on 31 December 2020, worked out proportionately on the basis of time elapsed since EOD. Five of the 12 sampled projects had their original NTEs prior to 2020 and hence could not have been impacted by the COVID-19 pandemic.

309. Management stated that the FPMIS module is outdated, that the milestones module does not have adequate features for monitoring, and that results monitoring by BHs is mostly done offline. This indicates that progress of projects is largely left to budget holders, with little monitoring of progress of projects at corporate level.

Recommendation 43: FAO may ensure that a robust module for monitoring achievement of milestones vis-à-vis targets be incorporated in PROMYS for facilitating corporate monitoring of project implementation.

Operational and Financial Closure

310. Project closure is an important aspect of project management and early preparations are crucial to ensure that projects are closed on time. Operational closure signifies the stage when the last input has been provided, all project activities have ended, assignments of all project personnel have been completed, and the terminal report/statement has been submitted. It also marks the point in time beyond which no further financial obligations will be incurred. Financial closure follows the operational closure as soon as possible, usually within a maximum period of 12 months. It marks the date after which no further transaction on that project account will be permitted by Finance (CSF). The BH is responsible for monitoring the tasks necessary for completion and closure of the project.

311. Projects which were in "Activity Completed" and "Operationally Closed" status as on 31 December 2020 were reviewed and it was observed from Field Programme Source and Application

Analysis (FPSAA) in FPMIS that 692 projects were closed, out of which, 464 projects (67 percent) were operationally and financially closed and 228 Projects (33 percent) were only operationally closed and were awaiting financial closure. Of these, 45 projects (20 percent) were awaiting financial closure for more than one year. There were three projects that were operationally closed in February 2003[27], April 2011[28] and November 2011[29] and were awaiting financial closure for several years.

312. Delays in closure of projects are mainly on account of delays in completion of administrative processes associated with the transfer of project assets, processing of final budget revisions with donors, review by Budget Holders of overspends on individual budget lines prior to submission of final financial report, processing of write-off requests for projects where amounts spent exceed budget/cash received on completion of the project where donor provides no additional funding, and clearance of final financial report by donors.

313. Projects pending closure for over a year after completion of activities point towards systemic issues that need to be addressed through instituting and strengthening the corporate monitoring framework. Operational and financial closure, transfer of assets and reporting, are areas that require active monitoring and where substantive improvements are needed.

Recommendation 44:

(a) An active monitoring framework may be established at corporate level to ensure timely operational and financial closure of projects.

(b) The main reasons for delays be regularly analysed and reported.

(c) It may be ensured that PROMYS has adequate MIS features for facilitating periodic review of project closure by focal points in Headquarters and by senior management.

Effectiveness of monitoring using progress reports

314. The frequency of progress reporting is established in the Funding Agreement and it is the responsibility of the BH to ensure that the reports are technically cleared and sent to the Funding Liaison Officer for review, clearance and dispatch to donor.

315. A random sample of 160 projects was selected to examine the effectiveness of the system of monitoring field projects. The following was observed:

- In 76 of the sampled projects (48 percent), the funding agreement did not envisage submission of periodical progress reports or the funding agreement was not clear on this requirement.
- 84 of the sampled projects (52 percent) had provision for submission of periodic reports as per funding agreements/project reports. However, against 426 progress reports due till 31

[27] OSRO/KOS/004/EC
[28] GCP /MYA/009/EC
[29] GCP /NEP/065/EC

December 2020, only 188 reports (44 percent) were uploaded in FPMIS by the BHs. Report submission was waived in 15 cases.

- FPMIS has a feature for sending automated trigger for notifying the BHs for submission of progress reports. However, FPMIS triggered only 76 messages to the BHs against 426 due progress reports.

316. Corporate management is therefore not periodically updated on the status of implementation of a substantial number of projects under implementation across the world through progress reports, either due to the reporting framework not being clearly delineated, or due to reports not being uploaded on FPMIS.

Recommendation 45: FAO may

(a) Strengthen corporate monitoring of submission of Progress Reports to ensure that projects are progressing as envisaged

(b) Ensure uploading of progress reports in the new ERP, PROMYS be made mandatory.

(c) Incorporate MIS feature in PROMYS for generating periodic reports on status of submission of progress reports by Budget Holders. A framework of monitoring by Corporate Management may be instituted for carrying out periodic review of progress of projects.

Terminal Reports

317. The BH is accountable for ensuring that a final draft terminal report reaches the PSR Reports Group at Headquarters for editing and finalization, no later than the project's actual NTE date. The BH is required to submit the terminal report (Narrative and Financial) to resource partners within three months after the NTE date of the project. The deadline to submit the terminal report can be greater than 90 days after the NTE, depending on the donor requirements.

318. Status of submission of terminal reports in 84 closed projects was reviewed, and based on data in FPMIS, it was observed that:

- In only 15 projects (18 percent), the terminal reports were submitted on/before the due date.
- In 62 projects (74 percent), the terminal reports were submitted with delay ranging from 1 day to 744 days.
- In two projects, terminal reports were not submitted though the activities were completed. Operation and financial closure were also pending in these two projects.
- In five projects, which were operationally closed, the terminal reports were not submitted and the delay ranged from 107 to 1304 days (as on 31 January, 2021).
- In two projects, there was no terminal report but a concluding letter was attached.

319. Management stated that the reference date for completion of a terminal report is included in the funding agreement and varies considerably from donor to donor. FPMIS does not have a functionality to "customize" the reporting dates based on the funding agreement, and the system instead includes a standard/average date of 90 days. Therefore, the date in FPMIS is indicative and may not exactly

correspond to the real reporting date (which is instead to be found in funding agreement). It is thus apparent that though the timely submission of the terminal report is an integral part of project closure in the Project cycle, and delay in its submission/ non-submission is often a cause for delay in project closure, its submission is not being monitored adequately and effectively. Correct due dates as per funding agreements are not being entered on FPMIS which makes monitoring of this important activity difficult.

Recommendation 46: The due date of submission of terminal reports as per funding agreements should mandatorily be entered on the ERP for each project and should form part of basic information required to be entered prior to commencement of project activities. There should be active monitoring of submission of terminal reports as stipulated in the extant instructions related to project closure.

PROJECT EVALUATION

System of evaluation

320. Evaluation should provide evidence-based information that is credible, reliable and useful, enabling the timely incorporation of findings, recommendations and lessons learnt into the decision-making processes of the organization. FAO conducts three types of evaluations viz. Thematic / Strategic Evaluations, Country Evaluations and Project Evaluations.

321. All initiatives funded by voluntary contributions (except Emergency and Rehabilitation Programmes) and Multi-Donor Trust Funds (MUL-TF) with a budget over USD 4,000,000 and all GEF funded projects are subject to mandatory provisions for separate evaluation. Projects initially approved with budget below USD 4,000,000 but that exceed this threshold through project extensions are also subject to mandatory separate evaluation. Projects below USD 4,000,000 are not subject to separate evaluations. They contribute to the evaluation pool fund which is used to conduct synthesis, country programme evaluations, thematic evaluations and impact evaluations and can be covered under one of these evaluative modalities. Ideally, projects with duration above 5 years should include provisions for both mid-term and final evaluation. A Mid-Term Evaluation (MTE) is undertaken when delivery reaches 50 percent of the initial budget and/or mid-point of scheduled project duration, to review efficiency and effectiveness of implementation and to contribute, through operational and strategic recommendations, to improved implementation for the remaining period of the project's life. The MTE is carried out by independent consultants under the overall responsibility of the Project BH. Office of Evaluation (OED) provides quality assurance of the evaluation process and deliverables. An independent Final Evaluation is recommended to be completed within six months prior to the actual completion date of the project. It aims at identifying project outcomes, their sustainability and actual or potential impacts. It also has the purpose of indicating future actions needed to assure continuity of the process developed through the project. OED, in consultation with project stakeholders, is responsible for managing the final evaluation.

322. It was observed, based on examination of 15 projects selected randomly, that the above criteria for mid-term evaluations and separate evaluation are not being followed uniformly. MTEs are not systematically conducted for non-GEF projects. They are conducted only when this is requested by the BH/project team. Further, the management responses are not regularly provided after final evaluation. Also, though the evaluation is recommended to be completed within six months prior to the actual completion date, some of the evaluations are finalised after the NTE/ operational closure. The evaluation reports and management responses are also not regularly uploaded in the FPMIS.

323. As per Evaluation Manual for decentralized offices, 2019, the field offices are responsible for conducting independent evaluation of projects below USD 4,000,000. However, it was noted that evaluation of projects below USD 4,000,000 is not being done in decentralized offices. Hence, corporate management is not aware of the outcomes of more than 2000 such projects and lessons learnt therefrom. In view of the large number of such projects and substantial resources spent on them, this is an area that requires attention of FAO management.

324. On the basis of Audit examination and management response, it is seen that evaluation of projects requires greater attention of the corporate management, for ensuring better compliance to extant provisions, institutionalizing lessons learnt from project experience, and using them for future projects/ similar ongoing projects to ensure that risks are identified in advance and better managed.

Recommendation 47:

(a) Better compliance to the criteria set for mid-term evaluation, separate final evaluation and submission of management response may be ensured.

(b) An institutional mechanism for documenting and archiving lessons learned from completed projects, based on evaluation reports, may be introduced for facilitating this information to be used in future programming decisions.

(c)As the organization undertakes large number of projects below USD 4,000,000, a suitable mechanism may be devised for undertaking their evaluation/ impact assessment. We recommend and Management agreed that all project managers may be encouraged to enhance their M&E system and undertake impact assessments, for enhanced learning and result-based management.

Action taken on Evaluation Reports

325. The Office of Evaluation (OED) coordinates and conducts evaluations of FAO programmes and projects at the global, regional and national levels to ensure that interventions align strategically to the objectives of the Organization and its stakeholders, and produce the desired results. Once an evaluation is completed, FAO teams need to prepare a management response. After the management response is finalized, the evaluated unit must prepare a follow-up report to track progress made on the recommendations. OED monitors the timing of follow-up reports and sends reminders to units concerned.

326. Ten evaluation reports (Mid-term Evaluations -3, Final Evaluations-5, Real time Evaluation-1 and Thematic Evaluation-1) finalised during 2018 were examined and it was found that:

- The sampled reports made a total of 67 recommendations, of which 34 were accepted and 14 were partially accepted by the Management and for 19 there was no data.
- The Management usually sets a timeframe to implement the recommendations. In none of the above 10 evaluations, there was provision to record/ update/ link the follow-ups of the recommendations in the FPMIS.
- The evaluator highlights specific issues which have either hindered the successful implementation of the project or are required to be attended in future. It was found that follow-ups/action taken on the issues highlighted in the evaluation reports are not available in FPMIS.
- The issues highlighted by the evaluation reports include inadequate stakeholder participation, low priority to gender mainstreaming, lack of coordination with functionaries of host government, project lacking visibility, integrity of monitoring data, etc.

327. Based on the above findings and Management's response, it is noted that FAO has a system to follow-up on Evaluation Reports; however, action taken on the observations/recommendations needs close monitoring.

Recommendation 48: The provision for reporting status of implementation of the actions to be taken in response to OED's observations and recommendations may be incorporated in PROMYS. Corporate monitoring of follow-up action on recommendations/issues highlighted in evaluation reports may be strengthened.

Conclusion

328. Project Management is one of the crucial business processes of the organization through which FAO delivers its mandate. Hence, efficient project implementation is crucial for ensuring that the Organization can contribute effectively towards achieving food security for all and also for safeguarding the reputation of the Organization. While roles and responsibilities for various activities associated with project implementation have been delineated, there is need to strengthen corporate oversight of various processes associated with project cycle for enhancing accountability and better project delivery. There is need to strengthen the project evaluation function for enhanced organizational learning and result-based management. In view of the large number of smaller projects that have remained unevaluated, there is need to think of ways to undertake their impact assessment.

E. Disclosures by Management

329. The terms of reference on External Audit require the disclosures of important information. In this section, Management provided disclosures on write-off of losses, ex-gratia payments and cases of fraud and presumptive fraud.

1. Write-off of losses of cash and receivables

330. In 2020, write-offs amounting to USD 118,352.61 were made. This amount comprised: (a) USD 108,000 pertaining to vendor related cash loss in Somalia. This was approved for write-off in 2013, but was processed in 2020; (b) USD 1026.81 pertaining to over payments to consultants due to a bank error; (c) USD 1156.11 reflecting the balance of Rafidain bank account in IQD currency, which was frozen during the war. No records of this account exist now. (d) USD 501.70 on account of discrepancy between cash in hand and petty cash as recorded on the system (e) USD 7667.99 on account of an unidentified payment made more than 20 years ago in the Regional Office for Near East and North Africa at Cairo.

331. Review of these write-offs were made and found to be in accordance with regulations and that the appropriate procedures were observed.

2. Ex-gratia payments

332. Management disclosed that ex-gratia payments made in financial year 2020 totalled USD 20,000. The amount was paid as death compensation to the beneficiaries of staff of FAO who died during the year 2020.

3. Cases of fraud and presumptive fraud

333. Management reported cases of fraud, presumptive fraud or theft known to the Organization that are required to be brought to the attention of the Finance Committee pursuant to paragraph 6 (c) (i) of the Additional Terms of Reference Governing External Audit (Annex 1 to the Financial Regulations). Management disclosures on fraud are made considering the definition of fraud contained in its Policy against Fraud and Other Corrupt Practices introduced on 12 March 2015 (Administrative Circular No. 2015/08 (Annex 1)). Regarding presumptive fraud, the disclosure has been prepared considering the definition of presumptive fraud recommended by the UN Joint Inspection Unit in its Report No. JIU/REP/2016/4.

Cases dealt with in 2020 and early 2021

334. **Closed Cases**

(a) Allegations of fraud involving two vendors that submitted allegedly fraudulent documentation and have colluded in the context of a tender for seeds valued at approximately USD 1 million. Neither company was awarded a purchase order, hence there was no financial loss. OIG conducted an investigation and the matter was submitted to the Vendor Sanctions Committee (VSC). Measure of debarment for 6 months was imposed. The case was ongoing since 2017 and was closed in 2020.

(b) OIG conducted an investigation on allegation of fraudulent documentation by a vendor to attest the quality of its goods in order to induce the office to disburse USD 96,607 for the same. The matter was submitted to the VSC and the measure of debarment for 3 years was imposed. The case was ongoing since 2017 and was closed in 2020.

(c) OIG conducted an investigation and found that an FAO pensioner knowingly submitted fraudulent medical claims for a value of approximately USD 100,000 to FAO's medical insurance provider. The matter was submitted to the Director-General for decision and it has been decided to terminate the pensioner's participation in the Organization's After Service Medical Coverage. The case is closed.

(d) OIG reviewed allegations that an implementing partner diverted USD 50,300 in beneficiary payments by not distributing them and, based on the information available, the matter was referred to the national authorities in an attempt to recover the unspent funds, which was unsuccessful. OIG also found that the implementing partner, subsequent to the alleged fraud, had been disqualified from use by the UN Country Team in the relevant country making submission to the VSC unnecessary. Considering the above, OIG closed the matter and informed the donor (OCHA) of the loss.

335. **Pending with Vendor Sanctions Committee**

(a) 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 VSC. The vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(b) 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 vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(c) Following an investigation, OIG concluded that an FAO staff member had an undisclosed conflict of interest arising from his failure to report his personal relationship with a vendor of the Organization in connection to some Letter of Agreements (LoAs), which OIG considers aggravated in light of the staff member's seniority with the Organization, prominent role in relation to relevant LoAs, and the fact that he had been put on notice of the issue in 2015 and nevertheless continued to disregard organizational requirements relating to conflicts of interest. While the evidence raises concerns that the staff member's neutrality in the discharge of his duties and responsibilities could have been compromised, there is insufficient evidence to substantiate the alleged collusive practices and/or favouritism. Action is being taken to finalize the disciplinary process. The matter as related to the vendor was also submitted to the VSC. The vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(d) OIG conducted an investigation and found that a supplier has 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 vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(e) OIG conducted an investigation and found that a supplier had 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 vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(f) OIG conducted an investigation and found that a supplier has 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 vendor did not reply within the time period laid down and the VSC met to determine the appropriate sanction. The matter is pending completion of the sanctions proceeding.

(g) OIG conducted an investigation and found that two vendors knowingly concealed their affiliation and colluded in relation to an FAO tender. The matter was submitted to the VSC. The vendor did not reply within the time period laid down and the VSC panel will meet to recommend the appropriate sanction.

(h) OIG conducted an investigation and found that employees of an inspection company contracted by FAO requested payment from a FAO supplier in connection with the inspection of goods procured by FAO, and not having received the payment requested from the vendor, intentionally gathered samples designed to result in unsatisfactory test results as part of the inspection in question. The matter was submitted to the VSC. The matter is pending completion of the sanctions proceeding.

(i) OIG conducted an investigation and found that a FAO vendor agreed with another vendor to prepare bids in responses to two Invitations to Bid (ITBs) issued by FAO in such a way as to split the award between the two companies in the event that they should win the tender. The matter was submitted to the VSC. The matter is pending completion of the sanctions proceeding.

(j) OIG conducted an investigation and found that a FAO vendor agreed with another vendor to prepare bids in responses to two ITBs issued by FAO in such a way as to split the award between the two companies in the event that they should win the tender. The matter was submitted to the VSC. The matter is pending completion of the sanctions proceeding.

336. **Pending administrative action on staff members**

(a) OIG conducted an investigation and found that an FAO staff member fraudulently misrepresented a residential move to justify receipt of a relocation grant. Disciplinary proceedings are on-going.

(b) OIG conducted an investigation and found that an FAO personnel on a national project personnel (NPP) contract misappropriated USD 10 300 by instructing beneficiaries to deposit funds into a bank account under the name of third person. OIG concluded that the NPP had access to the bank account in question. This administrative process is on-going.

(c) OIG conducted an investigation into allegations that a member of FAO personnel with managerial responsibilities knowingly or recklessly authorized a USD 37,128 payment to a former consultant for work the latter claimed to have carried out without a contract, in such a way that lacked a legitimate basis to do so under FAO's rules and regulations, and found that the staff member was grossly negligent in doing so. The matter was submitted to management for decision on what if any administrative or disciplinary action to take.

(d) OIG conducted an investigation into allegations that a staff member, who recently separated from the Organization, fraudulently claimed entitlements for Home Leave using forged documentation. The matter was submitted to management for decision on what if any administrative or disciplinary action to take.

Ongoing matters of presumptive fraud as of March 2021

337. **Cases on staff members**

(a) OIG is currently investigating 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.

(b) OIG is currently investigating allegations that a member of FAO personnel with managerial responsibilities instructed personnel under their supervision to create fake documentation, or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights.

(c) OIG is currently investigating allegations that multiple members of FAO personnel colluded with a vendor for the award of a contract to supply goods to be distributed to beneficiaries and then colluded with unknown individuals to divert those goods from their designated purpose.

(d) OIG is currently investigating allegations that a member of FAO personnel with managerial responsibilities knew that personnel had been instructed to create fake documentation, and through their inaction encouraged or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights.

(e) OIG is currently investigating allegations that a member of FAO personnel with managerial responsibilities knew that personnel had been instructed to create fake documentation, and through their inaction encouraged or otherwise knowingly participated in the creation of those false documents for the purpose of securing an individual a seat on a UN Humanitarian Air Service flights.

338. **Cases on suppliers**

(a) OIG is currently investigating allegations that a FAO vendor colluded with another vendor in the submission of its bids for the procurement of agricultural inputs. Neither vendor was awarded the contract in question. OIG requested and the VSC issued a Temporary suspension for the company.

(b) OIG is currently investigating allegations that a FAO vendor colluded with another vendor in the submission of its bids for the procurement of agricultural inputs. Neither vendor was awarded the contract in question. OIG requested and the VSC issued a Temporary suspension for the company.

(c) OIG is currently investigating 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. OIG requested and the VSC issued a Temporary suspension to both companies.

339. **Others**

(a) OIG is currently investigating allegations that a FAO consultant knowingly submitted an altered medical certificate in order to facilitate the issuance of their contract.

(b) OIG is currently investigating allegations that an implementing partner created fraudulent documentation to demonstrate the proper distribution of goods to beneficiaries as part of a FAO funded project. OIG requested and the VSC issued a Temporary suspension for the company.

F. Acknowledgements

340. We wish to express our appreciation to the Director General, senior management and staff for their co-operation in our audit engagement.

Girish Chandra Murmu
Comptroller and Auditor General of India

List of Abbreviations

AC	Administrative Circular
ARC	Africa Regional Conference
ASHI	After Service Health Insurance
ASMC	After Service Medical Coverage
BH	Budget Holder
BTORs	Back to Office Reports
CFW	Cash-for-Work
COIN	Country Office Information Network
COVID-19	Coronavirus Disease
CPF	Country Programming Framework
eBMM	Budget Maintenance Module
EBOs	Employee Benefits Obligations
EOD	Entry on Duty
EPHI	Ethiopian Public Health Institute
ERP	Enterprise Resource Planning
FAO	Food and Agriculture Organization
FAOR	FAO Country Representatives
FAORs	FAO Representations
FAPAK	FAO Representation in Pakistan
FBDG	Food Based Dietary Guidelines
FCT	Food Composition Table
FLO	Funding Liaison Officer
FM	FAO Manual
FNIRQ	FAO Representation in Iraq
FNSYR	FAO Representation in Syria

FPMIS	Field Programme Management Information System
FPSAA	Field Programme Source and Application Analysis
FPSN	Field Project Support Network
FRCMR	FAO Representation in Cameroon
FRMLW	FAO Representation in Malawi
FRZIM	FAO Representation in Zimbabwe
GCCC	Government counterpart cash contributions
GEF	Global Environment Facility
GIMS	Global Inventory Management Solution
GRMS	Global Resource Management System
HLM	High Level Meeting
IAASB	International Auditing and Assurance Standards Board
ICF	Internal Control Framework
ICQs	Internal Control Questionnaire
IEC	Information, Education and Communication
iMIS	Integrated Management Information System
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ITBs	Invitations to Bid
KPIs	Key Performance Indicators
LDCs	Least Developed Countries
LFM	Logical Framework Matrix
LIFDC	Low Income Food Deficit countries
LLDC	Land Locked Developing Countries
LOA	Letter of Agreement
MICS	Multiple Indicator Cluster Survey

MoAIWD	Ministry of Agriculture, Irrigation and Water Development
MOU	Memorandum of Understanding
MTE	Mid-Term Evaluation
MTP	Medium Term Plan
MUL-TF	Multi-Donor Trust Funds
NGO	Non-profit-making Government Organization
NPCA	Planning and Coordination Agency
NPOs	National Professional Officers
NSHR	Non Staff Human Resources
OCHA	Office for the Coordination of Humanitarian Affairs
OED	Office of Evaluation
OIG	Office of Inspector General
OPC	Out-posted Cash
PC	Petty Cash
PIRES	Programme Planning, Implementation Reporting and Evaluation Support System
POs	Purchase Orders
PoU	Prevalence of Undernourishment
PPE	Property, Plant and Equipment
PRs	Purchase Requisitions
QTP	Quarterly Travel Planning
RI	Regional Initiative
RNE	Regional Office for North Africa and Near East
RR	Regional Representative
SADC	South African Development Community
SFS	Sub-Regional Office for Southern Africa
SIDS	Small Island Developing States

SLAs	Service Level Agreements
SO	Strategic Objectives
SPS	Separation Payment Scheme
TCP	Technical Cooperation Programme
TEC	Travel Expense Claims
TFAS	Task Force on Accounting Standards
TFP	Trust Fund Projects
TPF	Terminal Payment Fund
UEL	Useful Economic Life
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNSDCF	United Nations Sustainable Development Cooperation Framework
VaR	Value-at-Risk
VSC	Vendor Sanctions Committee