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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  
الغذية والزراعة  
للأمم المتحدة

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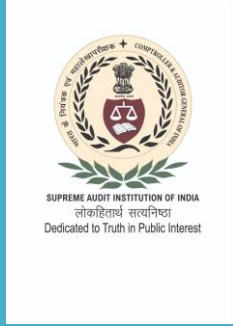
# CONFERENCE

**Forty-fourth Session**

**Rome, 28 June - 4 July 2025**

**Audited Accounts – FAO 2023  
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 2023**

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## Executive Summary

### Introduction

#### Report of the External Auditor

1. The report contains the results of the audit of the financial statements and operations of the Food and Agriculture Organization of the United Nations (FAO) for the financial year ending 31 December 2023, pursuant to Financial Regulations 12.1 to 12.10 of FAO and the additional Terms of Reference governing External Audit, appended thereto.
2. The general objectives of the audit are to provide independent assurance on the fairness of presentation of the financial statements to Members, to help increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.
3. In addition to audit of financial statements, audit of four Status of Funds (SOF) of Global Environment Facility (GEF) and two SOFs of United Nations Development Programme (UNDP) for the period ended 31 December 2023, as per the United Nations System Accounting Standards (UNSAS), the guidelines issued by UNDP and the Financial Procedures Agreement (FPA) executed between FAO and GEF, was carried out. Also, compliance audits were conducted at FAO Regional Office for Africa (RAF) in Ghana, the Sub-regional Office for Mesoamerica (SLM) in Panama and six FAO Representations (FAORs) in Argentina, Chad, Ecuador, El Salvador, Kenya and Uganda. These audits were conducted in areas selected based on risk assessment, with the overall focus being on compliance to rules and regulations.
4. Further, three performance audits were conducted of Procurement in FAO, the Food and Nutrition Division (ESN) and the 'Emergency Response Preparedness and Mechanism' for FAO. The main objective of the audits was to strengthen an economic, effective and efficient governance framework and contribute to enhancing accountability and transparency. The results of the audit on these areas and offices were communicated to FAO Management. Their responses, wherever available, have been incorporated in this report.
5. The report contains 34 recommendations arising from observations of audit. The recommendations have been categorized as Fundamental, Significant and Merits Attention.<sup>1</sup>

#### Overall Results of Audit

6. In line with our mandate, we audited the financial statements of FAO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) and the International Public Sector Accounting Standards (IPSAS).
7. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of FAO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements were, in all significant respects, compliant with the Financial Regulations and legislative authority of FAO.
8. We identified important issues that need to be addressed by Management to further improve recording and reporting of financial management.

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<sup>1</sup> **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.

## Key Audit Findings

### Financial Audit

#### Non-provisioning of Expected Credit Loss for Voluntary Contribution receivables

9. As per IPSAS 41, an entity is required to apply impairment provisions and recognize a loss allowance for Expected Credit Losses to financial assets that are measured either at amortized cost or fair value. While FAO has implemented an impairment policy for Assessed Contributions, no similar policy exists for Voluntary Contributions, though the latter constitute approximately 75 percent of its revenue. We observed that current Voluntary Contributions amounting to USD 6.16 million have been outstanding for recovery for more than five years, some of which have been outstanding for over 15 years, without any corresponding impairment or loss allowance being recorded.

### Performance Audit of Emergency Response Preparedness and Mechanism (ERPM)

#### Deficiencies in Resource Mobilization strategy

10. FAO made a funding appeal of USD 1.32 billion for its COVID-19 Response and Recovery Programme (RRP), which was primarily expected to be sourced through voluntary contributions. Review of fund availability under Global Humanitarian Response Plan and Boosting Smallholder Resilience for Recovery components revealed a shortfall of 34 percent and 88 percent respectively, against the cost estimates. Review of Country Programme Frameworks (CPFs) from 10 countries revealed either the absence of a resource mobilization (RM) strategy or action plan, or deficiencies in key areas such as non-identification of resource gaps, potential funding partners, timelines within the existing RM strategies in their CPFs, which may have significantly impacted the RM for the programme.

#### Absence of required output indicators – Technical Cooperation Programme Emergency Assistance (TCP-e)

11. The TCP was created to allow FAO to make its know-how and technical expertise available to member countries and TCP-e assistance should ideally lead to additional resource partner funding and the beneficiary countries were to have a clear plan regarding follow up on the TCP. However, none of the TCP-e projects had the necessary output indicators in place to assess whether the desired objectives of TCP-e projects relating to additional resource partner funding were achieved.

#### Provision of non-food & agriculture aid under Technical Cooperation Programme Emergency Assistance

12. TCP-e project for “Emergency response to mitigate the impact of coronavirus (COVID-19) on the most vulnerable persons in rural areas in a member country” was taken up by FAO with an original budget of USD 200 000 for providing 30 sets of critical medical equipment as well as for awareness and building capacities on animal-human interface of COVID-19 and other infectious diseases. Provision of medical equipment under TCP-e was not in conformity with FAO’s mandate and its strategy to conduct relief measures primarily in Integrated Food Security Phase Classification (IPC-3) and above countries.

#### Delays in operationalization of projects

13. The RRP was formulated in response to COVID-19 appeals. However, in 20 out of 140 emergency projects we reviewed, there were delays in operationalization after the approval stage, ranging from 31 to over 90 days, with some delays even extending up to 301 days. Similarly, 17 out of 69 non-emergency projects took between 30 and 366 days to become operationally active.

### **Non-zero cash balances in financially closed projects**

14. Financial closure marks the date after which no further transaction is permitted on the project account. Out of 105 financially closed projects we reviewed, 24 projects had a positive cash balance, while two had a negative cash balance and a net cash balance of USD 2.9 million was lying from 76 days to 888 days even after financial closure of the projects.

### **Performance Audit of Food and Nutrition Division (ESN)**

#### **Static budgets and declining resource mobilization**

15. We observed that the Regular Budget for the ESN Division has remained static over the last two biennia (2020-21: USD 16.83 million; 2022-23: USD 16.52 million), representing approximately 1.6 percent of FAO's Regular Programme Budget. The allocation for "Better Nutrition" (USD 130 194 in 2020-21 and USD 131 597 in 2022-23) also remained stagnant, falling short of aspirations for "Better Production" and "Better Life". Further, resource mobilization for the ESN Division has shown a declining trend and currently the Division lacks a formal RM strategy.

#### **ESN's dependence on Technical Support Services for income generation**

16. The ESN's income target comes from two sources: Technical Support Services (TSS) and Administrative Operational Support (AOS) costs. The income for ESN during the current biennium is primarily through TSS which is the only viable and stable medium of income generation. We also noted that 75-80 percent of ESN income is from projects, which would imply a risk to its TSS if it were unsuccessful in generating additional Extrabudgetary Resources (EBR).

#### **Slow progress on targets under Nutrition Accountability Framework**

17. At the Nutrition for Growth Summit in Tokyo (December 2021), FAO undertook commitments aimed at achieving certain key targets for better nutrition, which were to be monitored through four statements in the Nutrition Accountability Framework (NAF) and were aligned with corporate output indicators. We observed that achievements reported in SMART Statements in 2022 were less than the baseline of 2021 for two statements – Enabling access to healthy diets and CO support to host governments and were far below the trajectory to reach the targets by 2025 for all four statements.

#### **Shortage of nutrition expertise in COs & underutilization of budget for capacity development in ESN**

18. Around 55 percent of COs (out of 141) reported insufficient nutrition expertise to effectively support policies and actions for healthy diets across the agrifood system. With regard to capacity development of staff in ESN Division, the percentage of expenditure on ESN Staff Development against budget ranged from 16 to 39 percent during 2020-23. As per Implementation Plan of Nutrition Strategy, FAO was to conduct a comprehensive needs assessment as part of a 'FAO skills mix exercise' during 2021, to identify the number of nutrition officers needed for different roles across the Organization. However, the same was not done.

#### **Small value and duration of projects in ESN Division**

19. Most projects under ESN have a value of less than USD 1 million and an average implementation duration of under 3 years. During 2020-23, ESN Division approved 17 projects with an average duration of 31 months, while the average delivery was USD 0.57 million. Similarly, the average duration of the operationally active projects was 36 months, with the average delivery being USD 0.77 million.

#### **Non-alignment of projects with Country Programming Framework**

20. ESN Projects were mostly global and normative in nature and only 2 out of 17 operationally active projects were aligned with CPFs. One of these two projects was later curtailed due to insufficient consultation with the national stakeholders at formulation stage in that country.

### **Delays in financial closure of operationally closed projects**

21. Financial closure is to be ensured within a short period after operational closure of projects, as a long gap could expose the project to further financial charges. Out of the 14 projects that were operationally closed during 2020-23, eight were financially closed till November 2023 with a delay ranging from 131 to 931 days, while seven were financially closed with delay ranging between 42 days to 416 days from the operational closure date.

### **Performance Audit of Procurement**

#### **Deficiencies in procurement planning**

22. The procurement plans of both Decentralized Offices (DOs) and Headquarters (HQs) lacked several key details such as the name of the Lead Technical Officer/Technically Competent Unit, procurement schedules, delivery terms, funding sources, estimated budgets and quantities. Purchase Requisition (PR) data was available for a very small percentage of the items in the procurement plans of both HQ and the DOs. We noted significant deviations between the planned and actual procurement.

#### **Absence of planning for Letters of Agreement**

23. Letters of Agreement (LoA) are cost-reimbursable service contracts used to engage non-profit entities for services that are not available on the commercial market. Although LoAs accounted for 26 percent (USD 856.07 million) of FAO's total procurements (USD 3.28 billion) during January 2019 to August 2023, no annual LoA plans were prepared, and no guidelines existed for the same.

#### **Limited use of Long-Term Agreements for procurement**

24. Under Long Term Agreements (LTAs), vendors commit to supplying flexible quantities of goods, works, or services over a set period, which enhances cost-effectiveness and reduces administrative burden of repetitive supplier selection and contract awards for the Organization. FAO did not utilize LTAs extensively for frequently procured services, missing opportunities for improved efficiency and cost savings. Between January 2010 and August 2023, FAO entered into 670 LTAs, with 494 (74 percent) initiated by 79 DOs and the remainder by HQ. Notably, 63 percent of the DO-initiated LTAs were concentrated in just 15 DOs, while the remaining 37 percent were distributed across 64 DOs, indicating limited LTA use in many DOs.

#### **Poor integration of sustainability considerations in procurement planning**

25. Sustainable Procurement (SP) is the practice of integrating requirements, specifications in favour of the protection of the environment, of social progress and of economic development. Though FAO has issued a guidance note on integrating sustainability into procurement related decision-making, HQ presented a low rate of compliance with the requirements. Sustainability considerations were not included in solicitation for bids and at bid evaluation stage.

#### **Limited use of competitive procurement in Letters of Agreement**

26. The FAO Manual permits Direct Purchase in cases where competitive selection is either not feasible or unlikely to provide financial or reputational benefits. However, competitive selection was very limited in procurement under LoA and accounted for only 23 percent, of the total LoA procurements during 2019 and 2023.

#### **Non implementation of Segregation of Duties**

27. Segregation of Duties (SoD) is an important internal control mechanism and FAO Manual prescribes that segregation of duties will at a minimum, separate the functions of Requisitioner, Budget Holder, Buyer, Receiver and Payer. Out of 146 013 POs issued by FAO in the last five years, in 5.85 percent of cases the Buyer also served as the Requisitioner, Approver. Similarly, in 4 081 POs (HQ: 470, DOs: 3 611), the Buyer and Requisitioner were the same. In 1 406 POs worth USD 51.37 million, the Responsible Officers were same as the Authorized Officials.



### **Non integration of IT systems**

28. Various stages of procurement lifecycle of FAO are not integrated in its ERP system – the Global Resource Management System (GRMS) – and are either carried out through standalone IT systems/web-based IT applications or offline/manual process. The fragmented system not only impacts the procurement process but also hinders monitoring and audit trail, affecting internal controls.

### **Deficiencies in contract management – non-invocation of Liquidated Damages**

29. FAO Manual provides for the Buyer to invoke Liquidated Damages (LD) as one of the remedies, when the terms of the purchase order or contract are not fulfilled, or vendor performance is otherwise unsatisfactory. We noted that goods or services were not delivered within the promised date for 5 750 (65 percent) of the 8 823 POs in FAO HQ and in 7 763 POs (71 percent) of the 10 962 POs in 10 DOs. However, LD were invoked only for 131 POs (0.12 percent of the delayed cases in FAO HQ and 1.6 percent of the delayed cases in 10 DOs).

### **Reliance on a single vendor**

30. Vendor diversification is a key element for ensuring competitive procurements. In Sri Lanka DO, out of the total procurements of USD 40.41 million during January 2019 to August 2023, 82 percent (USD 33.14 million involving 4 POs) comprised procurement of fertilizers sourced from a single vendor during the period from December 2022 to July 2023. Out of this, while a meagre 17 percent was through competitive bidding, the rest was through Direct Purchase (25 percent) and Exceptional Award (58 percent).

## **Compliance Audit**

### **Investment and Treasury Management**

#### **Delay in appointment of Investment managers**

31. FAO's Investment Committee (IC) endorsed the selection of an Investment Manager for its developed market equity portfolio in September 2021. However, the final agreement with the Investment Manager was signed, and the investments were transitioned with a 17-month delay with the funds held in the Northern Trust (NT) Transition Account for nearly three years while awaiting the finalization of a new fund manager.

#### **Non-compliance with long-term investment policy**

32. FAO's Long-Term Investment Policy mandates strategic asset allocation in developed markets equity (37.5 percent), emerging market equity (12.5 percent), real estate (10 percent) and fixed income investments (40 percent). However, at the end of December 2023 no investments were made in real estate assets, failing to meet the objectives outlined in the policy. Further, while benchmarks for various asset classes have been defined to compare performance, no benchmark for real estate asset class has been defined.

## Audit Recommendations

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

Sl. No	Recommendation	Priority	Timeline
<b>Financial Audit</b>			
1.	FAO to develop and implement a comprehensive and objective Expected Credit Loss (ECL) provision methodology for outstanding Voluntary Contributions, ensuring compliance with IPSAS 41 and proactively preparing for the future implementation of IPSAS 47 for more accurate presentation of its assets in the financial statements and enhance the reliability of its solvency ratios.	Fundamental	2024
<b>Performance Audit of Emergency Response Preparedness and Mechanism (ERPM)</b>			
2.	FAO to ensure inclusion of a comprehensive Resource Mobilization Strategy in the Country Programming Framework (CPF) to ensure adequacy of funding for activities under the OER mandate.	Fundamental	2024
3.	Office of Emergencies and Resilience (OER) to ensure that resource partner, and follow up by beneficiary country are ideally identified, at the Technical Cooperation Programme Emergency Assistance (TCP-e) proposal and terminal report stage, to fully realize the anticipated benefits.	Fundamental	2024
4.	FAO/ OER to prioritize allocation of funds under the 'Level 3 emergency preparedness and response' window of the revolving fund component of Special Fund for Emergency and Rehabilitation Activities (SFERA) in accordance with the Finance Committee's endorsement in its 147th session, to further strengthen available resources for emergency preparedness and response.	Significant	2024
5.	FAO/ OER to ensure that that the provisions of the TCP manual for procurement of eligible items in its projects should be adhered to.	Significant	2024
6.	OER to ensure that Monitoring and Evaluation, Accountability and Learning (MEAL) plan is embedded in programmes having similar goals and scope and actively utilized to aggregate monitoring, evaluation, accountability and learning tools at the programme level.	Significant	2024
7.	OER to develop and implement a system for capturing fundamental descriptive data on the type, extent, nature and value of OER assistance to the Country Offices and provide the breakdown of the corporate target for emergency and resilience assistance by region/sub-region/country.	Significant	2024
8.	FAO to take prompt action when the Field Programme Management Information System (FPMIS) triggers excess of delivery as compared to the contributions received and take appropriate corrective action, including ascertaining reasons for	Significant	2024

	inaction, despite triggers pointing out that the delivery has exceeded contributions.		
9.	FAO to ensure that adequate documentation is available before approving the project; and that the country/regional offices are adequately supported in such cases.	Significant	2024
10.	OER/FAO to ensure that projects that are financially closed, do not have cash balances for an inordinate time, and steps are taken for refunding/re-allocation of unspent cash balances.	Significant	2024
11.	FAO/OER to strengthen monitoring to ensure timely delivery of project requirements by implementing system controls and ensuring application of liquidated damages for delays. Terminal reports and project closures to be closely tracked with clear deadlines and automated reminders to improve accountability and performance.	Significant	2024
<b>Performance Audit of Food and Nutrition Division (ESN)</b>			
12.	FAO to develop a comprehensive Resource Mobilization strategy including a matrix mapping resource partners at the country, sub-regional, and regional levels to FAO's Strategic Framework, Regional Initiatives, and the Country Programming Framework (CPF). ESN to continue to align donor priorities with its mandate by tailoring projects in collaboration with other FAO Offices and Divisions.	Fundamental	2024
13.	ESN Division to expand its income by increasing its provision of technical support to larger projects. This can be achieved through targeted outreach, enhanced communication, and strengthened collaboration with other Divisions and Regional Offices.	Fundamental	2024
14.	ESN to provide a fixed allocation of resources to the Technical Teams for an initial quarter or half-year period once the Biennium work plan is finalized. Subsequent allocations can be adjusted based on a review of task performance and delivery.	Significant	2024
15.	ESN to take steps to ensure FAO's Nutrition for Growth (N4G) commitments are met by organizing training for proper assignment of nutrition markers and addressing expert assessments to foster necessary institutional support for implementing recommended changes.	Significant	2024
16.	FAO to intensify corporate-level advocacy for increased visibility of N4G targets in FAO action plans and expedite support to Country Offices (COs) to accelerate progress toward achieving nutrition targets.	Significant	2024
17.	FAO to identify structural and technical solutions to address the shortage of nutrition expertise in Regional Offices/Country Offices (ROs/COs) ensuring strengthened capacity to support nutrition-related initiatives.	Significant	2024
18.	a) A Technical Team-wise training need analysis may be developed by the team leads regularly for their staff which may form the basis for the staff development plan that ESN submits to CSH annually. b) Budget for ESN Staff Development is to be optimally utilized.	Significant	2024

19.	ESN to design projects with larger budgets and longer durations to achieve sustained nutrition impact and strategically position its technical expertise with long-term donors.	Significant	2024
20.	a) ESN to advocate with FAO for modifying the concept note template to incorporate best practices, while also implementing these practices independently. b) ESN to negotiate with Office of Strategy, Programme and Budget (OSP) and Resource Mobilization Division (PSR) to ensure integration of nutrition objectives into their CPFs, with the condition that they utilize ESN's expertise from the concept stage.	Significant	2024
21.	ESN may ensure that operational and financial closure of projects is completed in a timely manner, as per operational guidelines.	Significant	2024
22.	Contributions to the Office of Evaluation (OED) Trust Fund as per approved rates should be transferred at the beginning of the projects by Budget Holders and a quarterly report shared with OED.	Significant	2024
<b>Performance Audit of Procurement</b>			
23.	FAO to ensure compliance with the Manual. The Procurement Service (CSLP) should consider issuing instructions on timely submission of Procurement Plans, implement validation checks in SharePoint, and instruct Budget Holders to develop realistic annual procurement plans to promote better financial management.	Significant	2024
24.	CSLP to establish a well-defined policy framework for planning Letter of Agreement (LoA) procurements and designate clear responsibility for its oversight.	Significant	2024
25.	CSLP to encourage more LTAs for goods and services with sustained demand to optimize procurement, while adhering to regulations. CSLP to focus on FAO offices that were making only limited use of LTAs.	Significant	2024
26.	CSLP to review and identify solutions to address the root causes of significant delays or inaccurate reporting of delayed deliveries of goods and services to Functional Units/ Projects.	Significant	2024
27.	CSLP to: a) take steps to implement sustainability practices progressively; b) strengthen engagement with Buyers and Requisitioners to enhance sustainability integration in procurement planning, with a particular focus on Headquarters; and c) establish separate lots for local small and medium sized suppliers, demonstrating a tangible commitment to translating policy into meaningful action and take concrete steps and initiatives to assist all suppliers in transitioning to Sustainable Procurement.	Significant	2024
28.	Management to consider issuing guidance modifying the relevant FAO Manual Section to increase procurement through competitive selection.	Merits Attention	2024
29.	a) CSLP to improve oversight and monitoring mechanisms to ensure that Procurement Authorities adhere to the Manual provisions and that a fair and transparent process is followed.	Significant	2024

	b) CSLP to actively engage with the Requesters/Budget Holders so that they plan and initiate procurements with sufficient lead time before a contract's expiration, to reduce the necessity of granting avoidable extensions.		
30.	<p>a) CSLP to conduct periodic reviews to ensure compliance with the Procurement Manual. Additionally, CSLP to establish a systemic validation mechanism to prevent conflicts of interest.</p> <p>b) CSLP to collaborate with Division of Digitalization and Informatics (CSI) during the ERP system update, to implement a robust audit trail with strong validation controls and selective access rights. Effective processes should be introduced to ensure timely fulfilment of obligations and payments, with system alerts for delays.</p> <p>c) CSLP to also enhance quality assurance processes, train personnel to accurately input data into the ERP system, review and improve contract management procedures with a focus on linking Liquidated Damages to delivery performance, and conduct periodic market surveys to diversify the vendor pool.</p>	Significant	2024
<b>Compliance Audit</b>			
31.	FAO management to strengthen monitoring to improve on the time taken for on-boarding of new fund managers.	Significant	2024
32.	<p>a) FAO to review its long-term investment policy to clearly define a balanced Strategic Asset Allocation (SAA), incorporating all relevant asset classes to facilitate comprehensive performance comparison.</p> <p>b) FAO to establish specific weightings for cash and cash equivalents, as well as Foreign Exchange (FX) derivatives, within each portfolio to provide clearer guidance and improve the monitoring of fund managers' performance.</p>	Significant	2024
33.	Management to monitor the control points within their ICQs with special attention given to those that have consistently remained partially implemented.	Significant	2024
34.	FAO to suitably pursue the matter of speeding up recovery of pending Value-Added Tax (VAT) refunds due with the respective revenue authorities.	Merits Attention	2024

## **MANDATE, SCOPE AND METHODOLOGY**

### **Mandate**

34. 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.

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

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

### **Scope**

37. 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.

38. 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 2023, 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 2023, 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.

39. During the financial year 2023, apart from the audit of the financial statements at headquarters, we audited the FAO Regional Office for Africa (RAF), the Sub-regional Office for Mesoamerica (SLM) in Panama and six FAO Representations (FAORs) in Argentina, Chad Ecuador, El Salvador, Kenya and Uganda.

40. Three performance audits were conducted on the Food and Nutrition Division (ESN), Emergency Response Preparedness and Mechanism and Procurement in FAO. We audited the financial statements of the FAO Credit Union for the financial year 2023 and issued a separate report. Further, we reviewed and certified the Status of Funds of the programmes implemented in cooperation with or on behalf of other agencies, namely the United Nations Development Programme (UNDP) and the Global Environment Facility (GEF).

### **Methodology and auditor's responsibilities**

41. 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.

42. 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.

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

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

## AUDIT FINDINGS AND RECOMMENDATIONS

### Follow-up of previous External Audit recommendations

45. The External Auditors of FAO make recommendations for improvements in the working of FAO in the long form Audit Report each year. The status of implementation/compliance of recommendations made in previous years’ External Auditor Reports as provided by Management at the time of the audit for the financial year 2023 is presented in the following table:

**Table 1**  
**Status of Implementation of Recommendations**

<b>External Audit Report</b>	<b>Total Recommendations</b>	<b>Outstanding as per External Audit Report 2022</b>	<b>Implemented</b>	<b>Outstanding Recommendations (as on 10 May 2024)</b>
2017	29	1	0	1
2018	41	5	2	3
2019	42	15	6	9
2020	48	20	8	12
2021	20	8	4	4
2022	31	31	12	19
<b>Total</b>	<b>211</b>	<b>80</b>	<b>32</b>	<b>48</b>

*Source: Information provided by FAO.*

46. The above table shows that out of 31 recommendations made by the External Auditor during audit of the financial year 2022, 12 (38.71 percent) have been implemented and the remaining are in the process of implementation. There were 49 outstanding recommendations for the period 2017 to 2021, out of which 20 (around 41 percent) have been implemented.

<b>Key Financial Facts</b>	
<b>(Figures in USD Million)</b>	
<b>Total Revenue:</b>	<b>2 398.52</b>
<b>Total Expenses:</b>	<b>2 193.65</b>
<b>Surplus for the year:</b>	<b>279.30</b>
<b>Assets:</b>	<b>6 227.33</b>
<b>Liabilities:</b>	<b>1 915.32</b>
<b>Net assets:</b>	<b>4 312.01</b>
<b>Employee benefits and other personnel costs:</b>	<b>435.67</b>

## RESULTS OF AUDIT

47. This section presents the results of the audit for the financial year 2023, which covers matters that, in the opinion of the External Auditor, should be brought to the attention of the Governing Bodies. To ensure balanced reporting and to co-develop solutions, we afforded FAO Management the opportunity to respond to our audit observations and recommendations. The recommendations are designed to support the objectives of FAO’s mandate, to reinforce accountability and transparency, and to improve FAO’s financial management and governance.

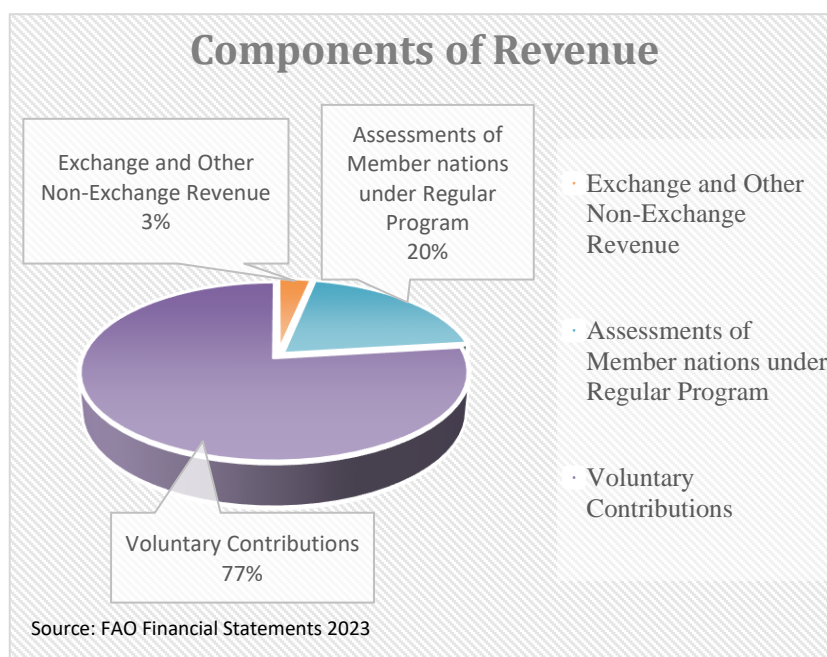
### A. FINANCIAL AUDIT

#### Financial Overview

48. FAO’s surplus of revenue over expenditure decreased by 66.6 percent from USD 836.17 million in the year 2022 to USD 279.30 million in 2023. The steep decrease in surplus was, due to a 14.21 percent decrease in total revenue (USD 2 398.52 million) coupled with a 15.34 percent increase in total expenses (USD 2 193.65 million) in 2023 against 2022.

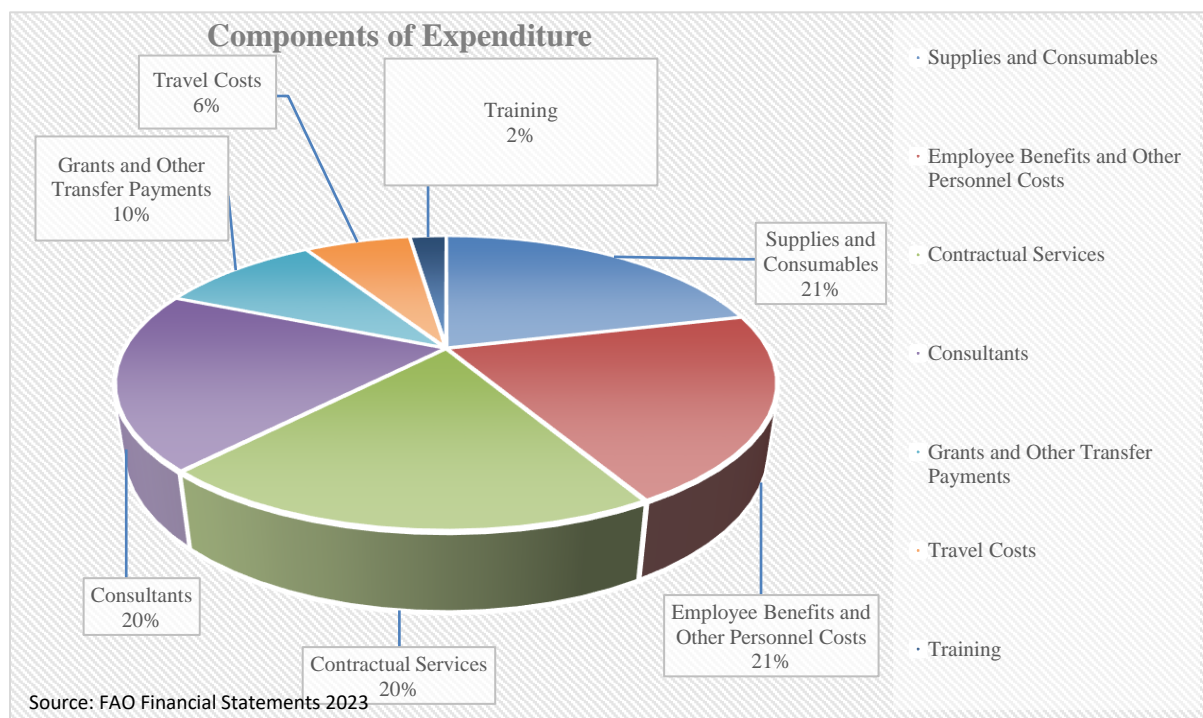
49. The decrease in total revenue in 2023 was mainly due to a 17.36 percent decrease in voluntary contributions (2023: USD 1 846.49 million, 76.98 percent of the total revenue) and 2.71 percent decrease in assessments of Member Nations under the Regular Programme (2023: USD 475.14 million, 19.81 percent of the total revenue), in 2023 over 2022, being two major sources of revenue in FAO in 2023.

50. The total expenditure of FAO increased by 15.34 percent in the year 2023 mainly due to increases in: Grants and other transfer payments (2023:





USD 207.73 million, 9.47 percent of total expenditure) by 80.15 percent; Supplies and consumables used (2023: USD 448.83 million, 20.46 percent of total expenses) by 14.5 percent; expenses on consultants (2023: USD 413.05 million, 18.83 percent of total expenses) by 12.22 percent; and Travel costs (2023: USD 137.46 million, 6.27 percent of total expenses) by 48.15 percent.



51. The total assets of FAO increased by 7.89 percent in 2023 (USD 6 227 million) from that of 2022 (USD 5 772 million) mainly due to increases in: Investments and derivative financial instruments (2023: USD 1 007 million, 48.22 percent of total increase in assets); Cash and cash equivalents (2023: USD 1 920 million, 26.62 percent of total increase in assets); Investments (2023: USD 602.44 million, 17.63 percent of total increase in assets); and Receivables from non-exchange transactions (2023: USD 1 051 million, 14.63 percent of total increase in assets).

52. Total liabilities increased by 6.37 percent in 2023 (USD 1 915 million) over that of 2022. The increase was caused by an increase in Accrued expenses (2023: USD 265.03 million) and Accounts payable (2023: USD 189.94 million).

## Financial Management

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

## Short-term Solvency

54. The short-term solvency viz. current, quick and cash ratios are detailed below:

**Table 2**

Ratio	2023	2022	2021
<b>Current Ratio</b> <sup>2</sup> (Current Assets/Current Liabilities)	4.80	5.10	4.71
<b>Quick Ratio</b> <sup>3</sup> (Quick Assets/Current Liabilities)	4.69	4.99	4.61
<b>Cash Ratio</b> <sup>4</sup> (Cash and current investments/Current liabilities)	3.11	3.13	3.00
<b>Total Assets to Total Liabilities Ratio</b> <sup>5</sup>	3.25	3.21	2.21

Source: FAO 2023, 2022, 2021 financial statements.

## Long-term Solvency

55. The ability of FAO to meet total liabilities is as follows.

**Table 3**

(Amount in million USD)

Description and Ratio	2023	2022	2021
Total Liabilities	1 915.32	1 800.58	2 232.21
Net Assets	4 312.01	3 971.22	2 699.99
<b>Total Liabilities to Net Asset Ratio</b> <sup>6</sup>	0.44	0.45	0.83

Source: FAO 2023, 2022, 2021 financial statements.

56. The total liabilities, which was 0.83 times of the net assets in the year 2021, reduced over the two years to 0.44 during the year 2023.

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

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

## AUDIT FINDINGS

### Non-Provisioning of Expected Credit Loss

#### Allowance for Expected credit losses for Voluntary Contributions receivables

58. Voluntary Contributions constitute approximately 75 percent of FAO's revenue. According to the requirements outlined in IPSAS 41<sup>7</sup>, an entity is required to apply impairment provisions to financial assets that are measured either at amortized cost or fair value, and recognize a loss allowance for expected credit losses (ECL) on these financial assets.

<sup>2</sup> A high ratio indicates an entity's ability to discharge its current liabilities.

<sup>3</sup> Quick Ratio is more conservative than the current ratio as it excludes inventory, prepayments & other current assets.

<sup>4</sup> Cash Ratio is cash, cash equivalents or invested funds in current assets to cover current liabilities.

<sup>5</sup> A high ratio is a good indicator of solvency.

<sup>6</sup> A Low Ratio is good indicator of solvency.

<sup>7</sup> IPSAS 41 would be replaced by IPSAS 47 with effect from 01 January 2026.

59. We noted that while FAO has implemented an impairment policy for Assessed Contributions outstanding for more than two years in line with its ECL policy, no similar impairment policy exists for Voluntary Contributions receivable.<sup>8</sup>

60. We observed that current Voluntary Contributions amounting to USD 6.16 million have been outstanding for recovery for more than five years. Some of these assets have remained outstanding for over 15 years, without any corresponding impairment or loss allowance being recorded.

61. Management explained that despite the extended periods of outstanding contributions, there is no immediate reason to assume that the amounts will not be recovered. Management also stated that the occurrence of past due invoices outstanding with voluntary donors is unrelated to credit quality/credit risk.

62. In light of the delays in the collection of Voluntary Contributions and recognizing the potential for short/non-payment by certain donors under specific circumstances like change in project scope, we foresee a need for FAO Management to develop and implement an Expected Credit Loss (ECL) policy for Voluntary Contributions receivables, which is supported by its past experience, and a comprehensive and objective analysis of the recoverability of outstanding Voluntary Contributions.

63. Adopting such a policy will improve the accuracy and reliability of revenue recognition and ensure that the financial statements more accurately reflect FAO's financial position in line with the requirements of IPSAS 41, and in preparation for future compliance with IPSAS 47.

**Recommendation 1:**

**FAO to develop and implement a comprehensive and objective Expected Credit Loss (ECL) provision methodology for outstanding Voluntary Contributions, ensuring compliance with IPSAS 41 and proactively preparing for the future implementation of IPSAS 47 for more accurate presentation of its assets in the financial statements and enhance the reliability of its solvency ratios.**

64. Management noted the recommendation.

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<sup>8</sup> Voluntary contributions are discounted as per 30 days USA treasury bill discount rate for Trust Funds and 2 years USA treasury bill discount rate for Commissions established under Article VI/XIV.

## B. MANAGEMENT MATTERS

### B.1 Performance Audit of Emergency Response Preparedness and Mechanism (ERPM)

#### Introduction

65. FAO developed a comprehensive COVID-19 Response and Recovery Programme (RRP) to address the socio-economic impacts of the pandemic and strengthen long-term resilience of food systems and livelihoods. The programme focuses on seven priority areas: Global Humanitarian Response Plan, Data for decision-making, Economic inclusion and social protection, Trade and food safety standards, boosting smallholder resilience, preventing next zoonotic pandemic and food systems transformation.

66. In July 2020, the FAO Programme Committee approved a call for an appeal for raising USD 1.32 billion in initial investments to provide an agile and coordinated global response to ensure nutritious food for all, both during and after the pandemic. The Programme's portfolio consisted of 308 approved projects with a total budget of about USD 435.8 million (33 percent of the appeal). A total of 94 percent of the budget (USD 409.3 million) originates from voluntary contributions, with the remaining 6 percent covered by FAO's Technical Cooperation Programme (over USD 26 million).

67. The distribution of the target of initial investments and funds raised per priority area (in million USD) is as follows:

Table 4

Priority Area	Target Funding	Budget Raised	% of target raised <sup>9</sup>	% of total budget raised <sup>10</sup>
PA1 - Global Humanitarian Response Plan	428	283.81	66%	65%
PA2 - Data for Decision Making	24	2.15	9%	<1%
PA3 - Economic Inclusion & Social Protection to reduce poverty	170	55.92	33%	13%
PA4 - Trade & Food Security Standards	50	5.61	11%	1%
PA5 - Boosting Smallholder Resilience for recovery	500	57.89	12%	13%
PA6 - Preventing Next Zoonotic Pandemic	100	7.82	8%	2%
PA7 - Food Systems Transformations	50	15.20	30%	3%
Others	0	7.4		2%
<b>Total</b>	<b>1 322</b>	<b>435.78</b>	<b>33%</b>	<b>100%</b>

#### Priority Areas selection for Audit

68. Based on a risk assessment and resource availability for audit, the performance audit focused on Priority Areas 1 and 5, covering more than 78 percent of the projected expenditure. These priority areas were implemented in field offices and supported by Office of Emergencies and Resilience (OER).

#### PA1: Global humanitarian response plan

69. FAO's response plan is part of the United Nations Office for the Coordination of Humanitarian Affairs-led Global Humanitarian Response Plan for COVID-19. This plan is regularly revised to reflect the evolving nature of the pandemic, as well as its emerging needs. The priority area, with a budget target of USD 428 million, has the objective of safeguarding the livelihoods impacted by COVID.

<sup>9</sup> % of Target Raised = (Budget Raised/Target Funding) \*100.

<sup>10</sup> % of Total Budget Raised = (Budget Raised for the PA/Total Budget Raised) \*100.

## **PA5: Boosting smallholder resilience for recovery**

70. This priority area aims at protecting the most vulnerable, i.e. the smallholders,<sup>11</sup> promoting economic recovery and enhancing risk management capacities. The budget target was USD 500 million.

### **AUDIT OBJECTIVES**

71. The Performance Audit of Emergency Response Preparedness and Mechanism with Priority Areas: a. Global Humanitarian Response Plan, and b. Boosting smallholder Resilience under COVID-19 Response and Recovery Programme was conducted for the period 2020-2023 covering 25 selected projects.

72. The Performance Audit was conducted with the objectives of ascertaining whether:

- Emergency preparedness and response of FAO in mitigating the effects of the COVID-19 pandemic on the vulnerable groups was performed in an inclusive, and timely manner.
- Resources (human and financial) were mobilized and utilized optimally and timely in maintaining existing critical humanitarian operations as well as in building resilience capacities through strategic interventions.
- Lessons learnt from the experience have been suitably incorporated and reflected in changed policy measures & practices for better future response.
- Suitable monitoring systems along with timely reporting and proper evaluation were in place to address future threats.

### **AUDIT FINDINGS AND RECOMMENDATIONS**

#### **Resource Mobilization (RM) Strategy and Action Plan for COVID-19 Response and Recovery Programme (RRP)**

73. FAO's response to the COVID-19 pandemic consisted of an Immediate Response Phase<sup>12</sup> and Transition and Recovery Phase (July 2020 onwards). The COVID response RRP, marking the beginning of the second phase, aimed to mitigate immediate impacts of the pandemic and strengthen long-term resilience of food systems and livelihoods, with a funding appeal of USD 1.32 billion, primarily expected to be sourced through Voluntary Contributions.

74. A RM Strategy provides a roadmap for resource mobilization and basis for resources allocation to agreed priorities. As per "A guide to Resource Mobilization Strategy", a well-defined Resource Mobilization (RM) Strategy and Action Plan was required to be incorporated in all Country Programming Frameworks (CPF). FAO's 'Resource Mobilization Job Aid' reiterates the need for a well-defined RM strategy and Action Plan for development and emergency projects funded from various resources.

75. As per the guidelines for the formulation of CPFs, a CPF should have an associated RM strategy detailing priority areas, outputs, estimated resources required, available funding, resource mobilization target, implementing partners, and resource partners. We noted the status of receipt of contribution funds against the funding appeal segregated for each priority areas seen in Table 4 of paragraph 67.

76. As can be seen in Table 4, the shortfall in availability of funds against the programme cost estimates in PA 1 and PA 5 was around 34 percent and 88 percent respectively.

77. The review of a random sample of Country Programme Frameworks (CPF) from 10 countries revealed either the absence of an RM strategy or action plan, or deficiencies in key areas such as the

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<sup>11</sup> Small-scale family farmers, pastoralists, forest keepers, fishers who manage areas varying from less than one hectare to ten hectares, as per FAO definition.

<sup>12</sup> March 2020 – June 2020.

non-identification of - resource gaps, potential funding partners, and timelines within the existing RM strategies in each of these CPFs.

78. The absence of a well-defined resource mobilization strategy and action plan in country CPFs may be a significant factor contributing to FAO's challenges in mobilizing the planned resources for the implementation of the COVID-19 RRP.

79. Management in its response stated that the mobilization being more than 40 percent of target funding is considered to be highly successful and FAO is still working on new funding sources. It also outlined the efforts and success of Office of Emergencies and Resilience (OER) in closely coordinating RM efforts at country, (sub) regional and global levels.

80. The reply was however silent on non-preparation of CPFs as per applicable guidelines. The priority area lead, in the PA 1 and PA 5 of COVID-19 RRP had the mandate and the responsibility for ensuring preparation of CPFs, as per the guidelines. Non-preparation of CPFs could ultimately impact the planned assistance and reach out to the beneficiaries identified while formulating the RRP.

### **Recommendation 2:**

**FAO to ensure inclusion of a comprehensive Resource Mobilization Strategy in the Country Programming Framework (CPF) to ensure adequacy of funding for activities under the OER mandate.**

81. Management accepted the recommendation.

### **Technical Cooperation Programme Emergency Assistance (TCP-e)**

82. The TCP was created to allow FAO to make its know-how and technical expertise available to member countries, categorized as being for either Development Assistance (D) or Emergency Assistance (E). The TCP-e appropriation for emergencies is managed centrally by the Office of Emergencies and Resilience (OER) in headquarters (HQ).

83. As per para 2 of the TCP manual, TCP-e assistance should ideally lead to additional resource partner funding and the beneficiary countries should have a clear plan on how they will follow up on the TCP.

84. We observed that under no TCP-e project, such output indicators were in place to assess whether the desired objectives of TCP-e projects relating to additional resource partner funding were achieved.

85. Management stated that the issue of additional resources is addressed under "sustainability of results" of the proposal and reported under the "sustainability" section of the terminal report<sup>13</sup> focusing on the various forms of sustainability (economic, human/social, environmental, and technological). However, no reference to the additional resource partners was found in the Terminal Reports of TCP-e projects.

86. Management stated that FAO will focus on ensuring that beneficiary countries allocate funds in their national budgets to address recurrent emergencies, minimizing the need for repetitive assistance. FAO will also encourage decentralized offices to seek extra budgetary funding and engage government and donors for additional support in project design.

87. To fully realize the anticipated benefits of TCP-e, the additional resource partner funding and a clear plan for follow up by the beneficiary countries needs to be identified, both at the TCP-e proposal stage, as well as at the terminal report stage.

### **Recommendation 3:**

**Office of Emergencies and Resilience (OER) to ensure that resource partner, and follow up by beneficiary country are ideally identified, at the Technical Cooperation Programme Emergency Assistance (TCP-e) proposal and terminal report stage, to fully realize the anticipated benefits.**

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<sup>13</sup> A terminal report is a document that summarizes the activities, achievements, and issues of a project or activity at its completion.

88. Management accepted the recommendation.

### **Special Fund for Emergency and Rehabilitation Activities**

89. The Special Fund for Emergency and Rehabilitation Activities (SFERA) is a tool for FAO to swiftly respond to food and agricultural threats and emergencies. It comprises three components: working capital, revolving fund, and programme component.

90. The Finance Committee of FAO approved, in 2012, a USD 1.7 million allocation for emergency preparedness and USD 1.5 million for response. The objective of the fund provision was that FAO should be prepared for three Level 3<sup>14</sup> emergencies. However, no allocation was found to be made in 2020 and 2022, despite funds being available from the Direct Operating Cost (DOC) recovery component, which provides funds for the full and timely delivery of project results.

91. Management stated that allocation of resources to Level 3 emergency preparedness and response under the SFERA are dependent on available resources from contributors to the fund. OER is closely monitoring the balance of the fund and reports on the use of the resource on an annual basis to FAO Governing bodies. According to fund availability, OER is committed to ensure that funds are prioritized according to needs.

92. We observed that, in addition to the COVID-19 pandemic, FAO declared one Level 3 (L3) emergency in 2020, two in 2021, one in 2022, and three in 2023. As of February 2024, five of these emergencies remain classified as L3 and continue to require funding from the SFERA.

#### **Recommendation 4:**

**FAO/OER to prioritize allocation of funds under the ‘Level 3 emergency preparedness and response’ window of the revolving fund component of Special Fund for Emergency and Rehabilitation Activities (SFERA) in accordance with the Finance Committee’s endorsement in its 147th session, to further strengthen available resources for emergency preparedness and response.**

93. Management accepted the recommendation.

### **Non-eligible project expenditures**

94. The TCP-e project ‘Emergency response to mitigate the impact of coronavirus (COVID-19) on the most vulnerable persons in rural areas in a member country was taken up by FAO with an original budget of USD 200 000 for providing 30 sets of critical medical equipment to the most needed as well as for increasing awareness and building capacities on animal-human interface of COVID-19 and other infectious diseases. The TCP-e project, approved with Entry on Duty (EOD) as 04 March 2020 and Not to Exceed (NTE) as 03 March 2021, was revised with a budget of USD 500 000 and the NTE of 31 December 2022.

95. It was observed that USD 97 813, i.e. 48.9 percent of the original project budget was used for non-expendable procurement of infusion pumps, non-invasive ventilators and patient monitoring system which were donated (March 2020) to the Government within two days of start of the project. Provision of goods and non-food/non-agriculture related activity was beyond the FAO mandate for the project.

96. OER recalled that they had advised the FAOR to include the provision of Personnel Protective Equipment only and not medical equipment for the above TCP-e project but noted that the Country Office had the final decision on inputs provided to the beneficiary and was accountable for the use of project resources, operations and progress of activities in accordance with FAO rules and regulations.

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<sup>14</sup> The Level 3 emergency preparedness and response window was established under the revolving fund component following the Finance Committee’s endorsement at its Hundred and Forty-Seventh Session This window focuses on (i) preparedness measures and activities strengthening FAO’s capacity to respond to large-scale emergencies and (ii) Level 3 emergency response and corporate surge.

97. Provision of medical equipment under this TCP-e was not in conformity with FAO mandate and its strategy to conduct relief measures primarily in Integrated Food Security Phase Classification (IPC-3) and above countries.

**Recommendation 5:**

**FAO/OER to ensure that that the provisions of the TCP manual for procurement of eligible items in its projects should be adhered to.**

98. Management accepted the recommendation.

**MEAL Framework**

99. FAO handbook states that a Monitoring, Evaluation, Accountability and Learning (MEAL) plan should be developed at the design stage of programme for Emergency and Resilience Projects. The MEAL plan is used throughout the programme life cycle to assess the performance of the programme against its set goals.

100. FAO launched (July 2020) an umbrella programme for COVID-19 RRP. We noted that FAO did not prepare a MEAL plan for the COVID-19 RRP.

101. Management responded that the OER MEAL team and its function were in pilot stage in January 2020, and therefore the plan could not be formulated. Also, Management stated that the absence of MEAL Plan did not adversely impact monitoring and evaluation activities of the projects under the COVID-19 RRP programme. Management further stated that OER has identified priority indicators for its emergency and resilience programming, which have been included in the MEAL Plan of Action launched in 2023.

102. Aligning MEAL plan to the COVID-19 RRP would have added value, as the objective of a MEAL plan was to generate information that programme managers needed to see if programme implementation is in line with planned activities and whether planned milestones are being reached, and to enable programme management to make decisions about the programme and take corrective actions when required.

**Recommendation 6:**

**OER to ensure that Monitoring and Evaluation, Accountability and Learning (MEAL) plan is embedded in programmes having similar goals and scope and actively utilized to aggregate monitoring, evaluation, accountability and learning tools at the programme level.**

103. Management accepted the recommendation.

**Action taken on OIG Recommendations**

104. At the instance of an audit by the Office of Inspector General (OIG), FAO, the OER confirmed to OIG of having developed a system for capturing fundamental descriptive data on the type, extent, nature, and value of OER assistance to Country Offices.

105. Our review of the documents and templates prepared to capture the above-mentioned data brought out that the documents only described what a specific CO needed to achieve and the resources it may require. The details such as the number of personnel, time duration of requirement of personnel, actual support, and the value of such support were not clearly defined.

106. Also, as against the Agreed Action to provide a breakdown of the corporate target for emergency and resilience assistance by region/ sub-region/ country, it was noticed that the documents provided only a country target; the breakdown of target region/ sub-region/ country wise was not available.

107. A review of the documents revealed that FAO had only indicated the development of a data collection template and that eight priority countries had been instructed to set targets for beneficiaries and resource mobilization.



108. Management stated that OER's R60M<sup>15</sup> initiative aims to assess countries' capacities and support needs in order to extend assistance to at least 30 percent of the population in need. The self-assessment will determine the assistance type provided by OER and other divisions. Progress will be monitored over two years, while country-specific targets for emergency and resilience interventions will be set by Q2 2024.

**Recommendation 7:**

**OER to develop and implement a system for capturing fundamental descriptive data on the type, extent, nature and value of OER assistance to the Country Offices and provide the breakdown of the corporate target for emergency and resilience assistance by region/sub-region/country.**

109. Management accepted the recommendation.

**Delivery exceeding contributions received**

110. The Field Programme Management Information System (FPMIS) is an essential tool used by the Food and Agriculture Organization (FAO) to manage and monitor field projects. FPMIS provides up-to-date, online project-related financial and qualitative information to track the status and evolution of projects, ensuring efficient management and transparency.

111. A review of the FPMIS for projects undertaken by OER between February 2022 and January 2024 revealed that eight projects,<sup>16</sup> under PA 1 and PA 5 had expenditure exceeding the contributions received. This resulted in the activation of funding shortage triggers, highlighting a deficit in available resources.

112. OER responded that it conducts regular reviews of project status, including cases of excess delivery, and coordinates with operating units and country offices to keep them informed. It monitors actions taken at the local level to address excess delivery issues. OER emphasized that the FAO Representative at the country level, as the designated budget holder, is responsible for overseeing and implementing all projects. In all cases highlighted in the sample, OER confirmed that appropriate actions have been taken.

**Recommendation 8:**

**FAO to take prompt action when the Field Programme Management Information System (FPMIS) triggers excess of delivery as compared to the contributions received and take appropriate corrective action, including ascertaining reasons for inaction, despite triggers pointing out that the delivery has exceeded contributions.**

113. Management accepted the recommendation.

**Operationalization of projects**

114. FPMIS provides easy access to comprehensive information on field programme activities across all phases of country assignments, covering the entire field programme cycle. It supports the needs of budget holders and program managers by generating reports, offering forecasts, and archiving data for all projects.

115. Our analysis revealed that 20 out of 140 emergency projects under PA 1 and PA 5 experienced delays between approval and being declared "operationally active", ranging from 31 to over 90 days, with some delays extending up to 301 days. This indicates that projects were not being operationalized in a timely manner after approval. Similarly, 17 out of 69 non-emergency projects under the same priority areas took between 30 and 366 days to become operationally active. Given that these projects were formulated in response to COVID-19 appeals, such delays were unexpected.

116. In the majority of the projects, delays in becoming operationally active were primarily attributed to insufficient or incomplete documentation, which hindered the timely initiation of project activities.

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<sup>15</sup> The corporate target of reaching 60 million people in 2022-23.

<sup>16</sup> Project nos. 719522, 722982, 705342, 716025, 702223 (UN project), 708962, 700502, 703002.

117. Management stated that the projects were always approved with the required documentation and tools such as checklists are regularly revised to align with changes to the project cycle which might explain the long time required to have a project approved in some instances.

**Recommendation 9:**

**FAO to ensure that adequate documentation is available before approving the project; and that the country/regional offices are adequately supported in such cases.**

118. Management accepted the recommendation.

**Non-zero cash balance in financially closed projects**

119. According to the operational guidelines for project closure, the Finance Division<sup>17</sup> (CSF) must send a request for confirmation regarding the treatment of unspent cash balances to the resource partner within 30 days of the budget holder's request for financial closure.

120. We noted that out of the 209 projects under PA 1 and PA 5, 105 have been financially closed. Among these, 24 projects had a positive cash balance at closure, while two projects had a negative cash balance. The net cash balance amounting to USD 2.9 million was lying from 76 days to 888 days even after financial closure of the projects. We requested OER to provide reasons for the delay in addressing this matter.

121. Management stated that most emergency projects are implemented in complex conditions, and it is not always possible to deliver budget at 100 percent due to conditions beyond control and the treatment of cash balances was as stipulated in the funding agreement of each project. Management further stated that OER liaises with the Finance Division to close projects financially and provides support to operating units as required.

**Recommendation 10:**

**OER/ FAO to ensure that projects that are financially closed, do not have cash balances for an inordinate time, and steps are taken for refunding/re-allocation of unspent cash balances.**

122. Management accepted the recommendation.

**Deficiencies noticed in projects through IT analysis**

123. The FPMIS offers an easy access to comprehensive information related to field programme activities in all phases of country assignment. iMIS supports FAO personnel worldwide by making information resources available to them in a usable format best suited to their duties and responsibilities. Global Resource Management System (GRMS) is an integrated and comprehensive corporate management system that provides greater accountability and streamlines administrative processes.

124. As part of the Performance Audit, 25 projects were selected for scrutiny, based on various criteria, (under PA 1 and PA 5). Detailed scrutiny of 23 projects (two were cancelled projects) in FPMIS, iMIS and GRMS revealed the following:

- In 16 projects, the delivery of goods and services was delayed by periods ranging from 1 to 1 279 days beyond the contracted or originally scheduled delivery dates. Similarly, in 15 projects, deliveries under Letters of Agreement (LoAs), a cost-reimbursable service contract used to procure goods and services that are not available on the commercial market, were delayed by 1 to 637 days. These delays not only postponed the receipt of goods and services but also risked delaying the provision of planned items and services to the intended beneficiaries.

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<sup>17</sup> The Finance Division (CSF) of FAO recommends and administers financial policies and procedures that meet professional standards; keeps accounts that accurately record financial activities; prepares reports to accurately portray the financial status of the Organization and its activities; oversees financial operations wherever performed in the Organization; and ensures that all disbursements are timely and made in accordance with established policies and procedures.

- Terminal reports are essential for confirming the achievement of donation objectives and securing future donor support. We found that in three projects, the submission of terminal reports was delayed by 79 to 312 days past the due dates.
- For Project entity 643077 for Malawi, goods were received 68 and 338 days late against the agreed delivery dates in POs 6004682 and 604755, respectively, with no liquidated damages imposed.
- In Project entity 705142 for Yemen, delays in finalizing tenders and issuing purchase orders led to the delivery of 4,104 MT of animal feed being postponed by 7 to 13 months, depriving 31,900 households of timely benefits. Moreover, there was a delay in delivery of animal feeds against even the revised date in nine districts (except Wusab As Safil, Dawran Aness and Utmah) ranging from 1 to 8 months. However, no Liquidated damages were raised for delayed delivery in these cases.

125. Management stated that the Project Support Division (PSS), Resource Mobilization Division (PSR), OER reporting groups, and Office of Strategy, Programme and Budget (OSP) are collaborating on enhancing reporting. They will establish clear processes for inserting due dates based on funding agreements and integrate the operational closure process into FPMIS. Management will remind buyers to apply liquidated damages when necessary and consider trigger alerts for delayed deliveries.

**Recommendation 11:**

**FAO/ OER to strengthen monitoring to ensure timely delivery of project requirements by implementing system controls and ensuring application of liquidated damages for delays. Terminal reports and project closures to be closely tracked with clear deadlines and automated reminders to improve accountability and performance.**

126. Management accepted the recommendation.

## **B.2 Performance Audit of Food and Nutrition Division (ESN)**

### **Introduction**

#### **About FAO's Food and Nutrition Division (ESN)**

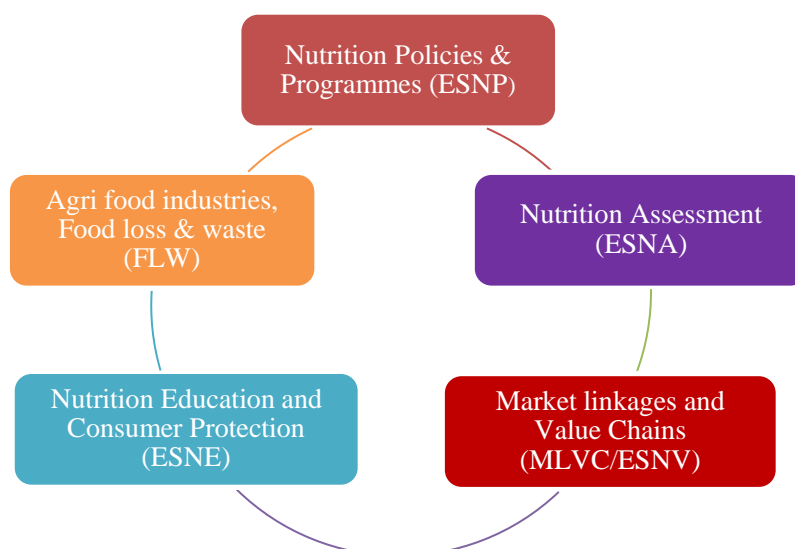
127. The ESN Division coordinates FAO's work in protecting, promoting, and improving sustainable food systems for healthy diets and improved nutrition. The ESN Division supports other divisions and decentralized offices (DOs) in contributing to FAO's Mission and Vision for Nutrition which are established by the Nutrition Strategy.<sup>18</sup> The Division has a common objective of improving diets and "raising levels of nutrition" using an agri-food system<sup>19</sup> approach.

128. As the lead technical unit for nutrition, the ESN Division is particularly responsible for Better Nutrition and is the lead Division for PPAs - Better Nutrition 1 (*Healthy Diets for All*) and 2 (*Nutrition for the Most Vulnerable*), both of which are co-led by other Divisions. Currently, the functions of the Division are performed through the Office of the Director and the Division's five technical teams.

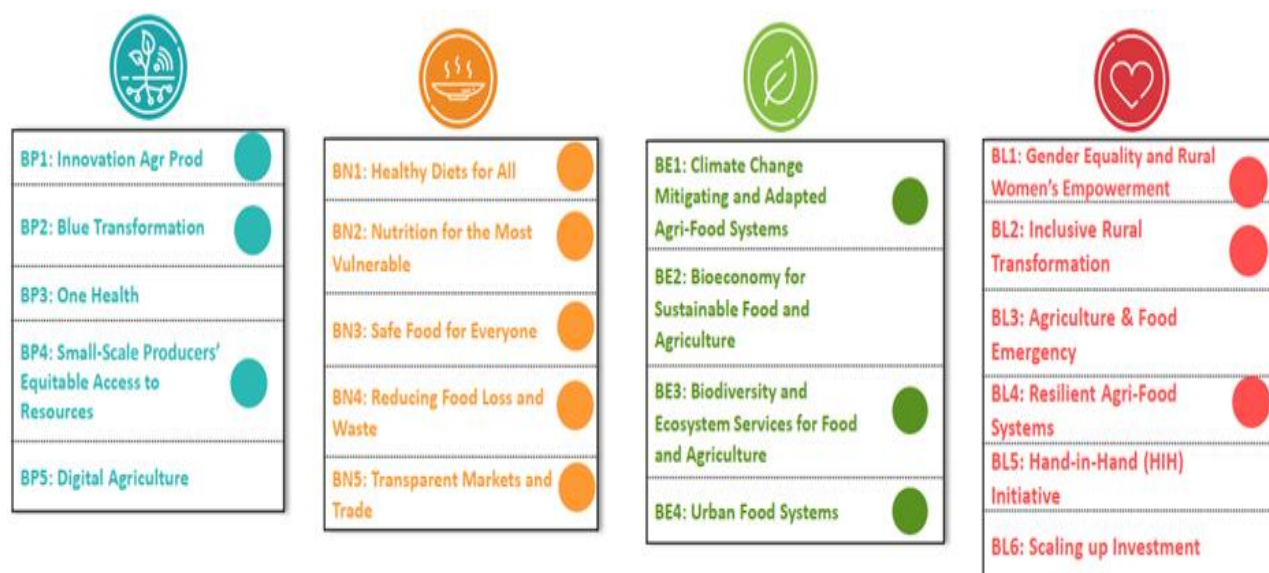
<sup>18</sup> Nutrition Strategy (2021) prepared by FAO Management provides the framework to guide the specific activities of FAO throughout 2021-25 by articulating action areas towards a common mission to tackle malnutrition in all its forms.

<sup>19</sup> An agri-food system is one that delivers food security and nutrition for all in such a way that the economic, social and environmental bases to generate food security and nutrition for future generation is not compromised.

## Five Technical Teams of Food and Nutrition Division, FAO



129. ESN's work and budget falls into 14 Programme Priority Areas (PPAs) and it contributes to the outcomes of these PPAs.



## Audit Objectives

130. The Performance Audit of the Food and Nutrition Division (ESN) was conducted covering the period from January 2020 to September 2023, to ascertain whether:

- the functioning of the division is in line with the objectives and outcomes envisaged by FAO's Strategic Framework 22-31, Vision and Strategy for FAO's Work in Nutrition 2021 and the commitments made by FAO relevant for nutrition in Summits/Conferences;
- there is adequate availability of resources (human and financial) and whether these are being utilized optimally in support of nutrition at FAO; and
- programme/ project formulation, implementation, monitoring, reporting and evaluation are carried out effectively.

### Resource Mobilization

131. FAO's Constitution mandates raising the levels of nutrition and improving living standards for populations under its jurisdiction.

132. We observed that the Regular Budget for the ESN Division has remained static over the last two biennia (2020-21: USD 16.83 million; 2022-23: USD 16.52 million), representing approximately 1.6 percent of FAO's Regular Programme Budget. The allocation for "Better Nutrition" (USD 130 194 in 2020-21 and USD 131 597 in 2022-23) also remained stagnant, falling short of aspirations for "Better Production" and "Better Life". Resource mobilization for the ESN Division has shown a declining trend.

133. With a more challenging funding environment, voluntary contributions have become critical to supplement assessed contributions. The ESN Division needs to secure sufficient resources to pursue strategic priorities while maintaining flexibility in spending. To achieve FAO's nutrition-related goals, greater focus and investment are required across all divisions. A resource mobilization strategy at the divisional level is needed to operationalize FAO's nutrition work and support its "Better Nutrition" aspirations.

134. Management acknowledging the financial constraints, cited insufficient voluntary contributions and a lack of inflation adjustments until 2024-2025. It stated that although ESN, established in 2021, is now under financial pressure, it expected to secure USD 2.35 million in extrabudgetary funds in 2023. Currently, ESN lacks a formal resource mobilization strategy but actively discusses priorities in Senior Management Team meetings and tracks resource mobilization efforts through a new spreadsheet, with successful grants transitioning to the FAO project cycle.

135. The efforts are acknowledged. However, having a Resource Mobilization Strategy at the Divisional level is crucial to lead the operationalization of the implementation plan of FAO's Work in Nutrition as it is the lead Division to aid FAO in its Better Nutrition aspiration.

#### Recommendation 12:

**FAO to develop a comprehensive Resource Mobilization strategy including a matrix mapping resource partners at the country, sub-regional, and regional levels to FAO's Strategic Framework, Regional Initiatives, and the Country Programming Framework (CPF). ESN to continue to align donor priorities with its mandate by tailoring projects in collaboration with other FAO Offices and Divisions.**

136. Management accepted the recommendations and stated that FAO's Resource Mobilization Action Plan (REMAP), launched in March 2024, guides proactive actions in this direction.

### Management of General Fund Resources

137. The FAO General Fund<sup>20</sup> represents the cumulative result of all member assessments, miscellaneous income, and other revenue, minus total expenditures for executing the Programme of Work. The ESN income target comes from two sources: Technical Support Services (TSS) and Administrative and Operational Support (AOS) Costs. TSS fees are applied to all projects, including emergency projects, for technical services provided by Lead Technical Officers and other specialists. TSS is essential during project identification, formulation, implementation, and monitoring, and is considered a direct cost of the projects. AOS covers charges for administrative and operational services. The income target for ESN reflects the target earnings for providing technical support services.

138. We noted that the income for ESN during the current biennium is primarily through TSS which is the only viable and stable medium of income generation.

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<sup>20</sup> The FAO General Fund is part of the Organization's overall budget, which is funded through both assessed and voluntary contributions from member countries and other partners.

139. We further observed that 75–80 percent<sup>21</sup> of ESN income is from TSS on projects, which would indeed imply a risk if it were unsuccessful in generating additional Extra-budgetary Resources (EBR). Moreover, the income stream may be adversely affected if technical officers, who are crucial for providing technical support, retire or leave ESN. This could result in inadequate funding for technical support services.

**Recommendation 13:**

**ESN Division to expand its income by increasing its provision of technical support to larger projects. This can be achieved through targeted outreach, enhanced communication, and strengthened collaboration with other Divisions and Regional Offices.**

140. Management accepted the recommendation.

**Budget allocation for Work Plan**

141. The Division follows a biennium work plan for implementing the FAO Strategic Framework through the Programme Priority Areas (PPAs). A focal point is assigned to each Strategic Objective (for 2020-21) or each PPA<sup>22</sup> (for 2022-23). The budget allocation to Technical Teams should be as per the activities under the approved work plan and the non-staff resources<sup>23</sup> required to achieve the milestones prioritized through these activities.

142. We noted that the Division allocated an initial amount of USD 220 000 under non-staff budget for each year of 2022-23 biennium equally among the five Technical Teams irrespective of their roles and responsibilities.

143. Management stated that the allocation was a fair way to divide resources as per tasks, to enable good planning for the year.

144. The rationale of long-term planning is appreciated. However, the five Technical Teams of the division have different roles and responsibilities for their results-based outputs, under the overall mandate of ESN and need commensurate Non-Staff Human Resources (NSHR).

**Recommendation 14:**

**ESN to provide a fixed allocation of resources to the Technical Teams for an initial quarter or half-year period once the Biennium work plan is finalized. Subsequent allocations can be adjusted based on a review of task performance and delivery.**

145. Management accepted the recommendation.

**FAO Nutrition Marker**

146. FAO monitors its nutrition sensitive projects through the Nutrition Marker<sup>24</sup> (NM), a mandatory coding system of the Field Programme Management Information System (FPMIS), indicating the extent to which nutrition is addressed in the design phase of FAO Programmes and projects.

147. We observed that in the two biennia 2020-21 and 2022-23, only eight (47 percent) out of ESN's 17 new projects provided a response to the nutrition marker, which was 0.45 percent in terms of FAO's overall 1775 nutrition sensitive projects during the period.

148. Moreover, FAO at the Tokyo Nutrition for Growth Summit pledged to increase the nutrition sensitive projects by 50 percent over the 2020-21 baseline, with commitment to make 87 percent of its projects nutrition sensitive by 2025 and this percentage was to be maintained or increased through 2030.

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<sup>21</sup> 75% for biennium 2020-21 and 78% for biennium 2022-23 (up to September 2023).

<sup>22</sup> Strategic Objectives provide the overarching goals, PPAs break down these goals into specific, actionable areas of focus.

<sup>23</sup> FAO's non-staff resources refer to the various types of human resources that are not part of the regular staff. These include consultants, interns, etc.

<sup>24</sup> Introduced in 2019, NM has a three-fold classification which indicates the extent to which nutrition is addressed in the project design. The projects are classified in cases where improving diets and contributing to better nutrition is a Principal (Marker 2) objective, Significant (Marker 1) objective and Not targeted (Marker 0).

To achieve the target, there was a need to accelerate progress of making the projects nutrition marker compliant by at least 7 percent annually. We noted that the average annual growth for nutrition marker has been below 4 percent.

149. Management stated that the tools and capacity development activities of ESN are focussed to achieve this organizational commitment, and there is enhanced technical support to countries and divisions to identify opportunities and to formulate projects/programmes that are nutrition sensitive. The division has also contracted with an expert to conduct an external assessment of the nutrition marker.

**Recommendation 15:**

**ESN to take steps to ensure FAO’s Nutrition for Growth (N4G) commitments are met by organizing training for proper assignment of nutrition markers and addressing expert assessments to foster necessary institutional support for implementing recommended changes.**

150. Management accepted the recommendation.

**Nutrition for Growth (N4G) Summit**

151. At the N4G Summit in Tokyo (December 2021), FAO undertook ambitious commitments aimed at achieving key targets, including prioritizing access to healthy diets, enhancing the nutrition-sensitivity of projects, supporting the implementation of the Voluntary Code of Conduct for Food Loss and Waste Reduction, and assisting host governments in realizing FAO’s nutrition vision. These commitments were to be monitored through four SMART<sup>25</sup> statements in the Nutrition Accountability Framework (NAF) and were aligned with corporate output indicators.

152. The achievement reported in SMART Statements for 2022 are listed in the Table below:

**Table 5**

#	SMART Statement relating to	Baseline	2022 Reporting	Target 2025
1	Enabling access to healthy diets	2014-2021: 78%	75%	90%
2	Increase percentage of nutrition-sensitive projects and programmes	2020-2021: 58%	62%	87%
3	Support Members in implementation of Voluntary Code of Conduct for Food Loss and Waste Reduction.	2021: 0%	100%	80%
4	FAO country offices to support host governments for - all people eating healthy diets from efficient, inclusive, resilient, and sustainable agrifood systems	2021: 79%	75%	90%

153. It was observed that achievements reported in SMART Statements in 2022 were less than the baseline of 2021 (for Statements 1 and 4) and were far below the trajectory to reach the targets by 2025 (for all 4 statements).

154. Management clarified that the N4G commitments and corresponding responsibilities are corporate-wide, not specific to ESN. However, ESN contributes to achieving these commitments by

<sup>25</sup> Specific, measurable, achievable, relevant and time-bound (SMART).

promoting a stronger technical focus on nutrition across the Organization, providing enhanced technical support to countries and divisions, and increasing awareness and advocacy efforts with donors.

**Recommendation 16:**

**FAO to intensify corporate-level advocacy for increased visibility of N4G targets in FAO action plans and expedite support to Country Offices (COs) to accelerate progress toward achieving nutrition targets.**

155. Management accepted the recommendation.

**UN Decade of Action on Nutrition**

156. In 2016,<sup>26</sup> the United Nations General Assembly (UNGA) proclaimed 2016-2025 as the ‘UN Decade of Action on Nutrition,’ urging governments to transform as per the Second International Conference on Nutrition (ICN2) commitments and the 2030 Agenda for Sustainable Development into SMART (specific, measurable, achievable, relevant and time-bound) nutrition actions. FAO and WHO were mandated to lead the Decade’s implementation, working alongside organizations such as the International Fund for Agricultural Development (IFAD), United Nations Children’s Fund (UNICEF), and World Food Programme (WFP) to develop a work program and produce biennial reports.

157. ESN, together with WHO’s Nutrition and Food Safety Department, oversees the Technical Secretariat of the Decade. FAO Country Annual Reports (CARs) assess Country Offices’ (COs) commitment to nutrition frameworks and evaluate related activities and capacities, using specific indicators to measure progress.

158. We noted that in 2022, there was a decline in the percentage of Country Offices (COs) supporting the use of nutrition-related data (1 percent decline) and integrating (3 percent decline) it into the UN Common Country Analysis (UNCCA), compared to 2021. Further, around 55 percent of COs (out of 141) reported insufficient nutrition expertise to effectively support policies and actions for healthy diets across the agrifood system.

159. Management stated that ESN is actively supporting increasing awareness, knowledge, and skills for FAO personnel in nutrition and also endeavours to undergo some structural changes in the next biennium to enhance ESN’s capacity to effectively support countries and regional offices.

**Recommendation 17:**

**FAO to identify structural and technical solutions to address the shortage of nutrition expertise in Regional Offices/Country Offices (ROs/COs) ensuring strengthened capacity to support nutrition-related initiatives.**

160. Management accepted the recommendation.

**Capacity Development of Staff**

161. As per the FAO Handbook, each year, departments/divisions/offices are asked to compile a staff development plan based on priorities and needs to ensure that staff development resources are used optimally to serve the evolving needs of staff and that of the Organization.

162. We observed that the percentage of expenditure on ESN Staff Development against budget ranges from 16 to 39 percent during the audit period.

163. Management attributed this to low demand for utilization of these funds for ESN Staff Development.

164. As per the Implementation Plan of the Nutrition Strategy, during 2021, FAO was to conduct a comprehensive needs assessment as part of a ‘FAO skills mix exercise’, to identify the number of nutrition officers needed for different roles across the Organization. We noted that FAO did not

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<sup>26</sup> Resolution 70/259 - <https://undocs.org/A/RES/70/259>.



complete the FAO skills mix exercise as planned, and therefore ESN was not able to integrate questions regarding the skills mix for nutrition expertise as planned.

**Recommendation 18:**

- a) **A Technical Team-wise training need analysis may be developed by the team leads regularly for their staff which may form the basis for the staff development plan that ESN submits to CSH annually.**
- b) **Budget for ESN Staff Development is to be optimally utilized.**

165. Management accepted the recommendations.

**Project Management in ESN Division**

166. The ESN Division approved 17 projects during the audit period (2020- 23) for a total amount of USD 10.11 million. The average duration of the projects has been 31 months, while the average delivery of the projects has been USD 0.57 million. Out of the above, 8 projects were financially closed during the period with original budget of USD 7.49 million and total delivery of USD 6.36 million.

167. The average duration of the operationally active projects (difference between Entry on Duty (EOD), and Not to Exceed (NTE)) has been 36 months, while the average delivery has been USD 0.77 million. The average duration for financially closed projects has been 34 months while the average delivery has been USD 0.79 million.

168. To effectively demonstrate results in nutrition projects, larger budgets and longer operational periods are required. However, we observed that most projects have a value of less than USD 1 million and an average implementation duration of under 3 years.

169. Acknowledging the scenario, Management stated that it is often constrained by donor requirements and expectations.

**Recommendation 19:**

**ESN to design projects with larger budgets and longer durations to achieve sustained nutrition impact and strategically position its technical expertise with long-term donors.**

170. Management accepted the recommendations.

**Project Planning**

171. A concept note for an FAO project is a brief document outlining the project’s objectives, expected results, and main activities. It serves as an initial proposal to seek approval or funding for the project. The Concept note is a significant step in project formulation. This is also the key to solicit donor support.

172. We observed that the ESN project concept note template lacks a section for detailing past projects with similar outcome objectives. Multiple projects may indicate continuity or similar goals, but it’s unclear how ESN incorporates past learnings and new evidence to evolve its approach. This omission could reduce the appeal to potential donors and does not align with best practices in documenting learning.

173. The Country Programming Framework (CPF) is a strategic tool used by the Food and Agriculture Organization (FAO) to align its support with the national development goals of member countries. It ensures that FAO’s initiatives are tailored to address specific needs, promoting sustainable agricultural development and food security

174. Our examination brought out that ESN Projects were mostly global and normative in nature. Only two out of 17 operationally active projects of ESN were aligned with CPFs. Moreover, one of the two projects was later curtailed due to insufficient consultation with the national stakeholders at formulation stage in that country.

### **Recommendation 20:**

- a) **ESN to advocate with FAO for modifying the concept note template to incorporate best practices, while also implementing these practices independently.**
- b) **ESN to negotiate with Office of Strategy, Programme and Budget (OSP) and Resource Mobilization Division (PSR) to ensure integration of nutrition objectives into their CPFs, with the condition that they utilize ESN's expertise from the concept stage.**

175. Management accepted the recommendations and agreed to deploy mechanism to enhance nutrition-sensitive programming at FAO, especially for CPFs where appropriate.

### **Implementation Plan**

176. As per Operational Guideline for Project Closure of FAO, ideally, financial closure should be requested within a short period after operational closure to avoid a long gap between the two closure stages, which may expose the project to further financial charges.

177. As per information provided by ESN,

- 14 projects have been operationally closed during the audit period with delays ranging between 16 to 489 days (on the date after the NTE date).
- Out of these, only eight projects could be closed financially till November 2023 at a delay ranging between 131 to 931 days from NTE dates while seven projects were financially closed with delay ranging between 42 days to 416 days from the operational closure date.
- In three projects, which were closed, either operationally or financially, the budget was revised (ranging from 104 to 144 percent above the original approved budget).
- Further, out of 17 operationally active projects, four have already passed their NTE date but still operationally not closed. Moreover, out of these, budget of seven projects have been increased (ranging from 134 percent to 362 percent of the original approved budget).

178. Setting realistic timelines in the formulation stage considering the process intensive clearances within FAO and due consideration to donor requirements would help in streamlining closures.

### **Recommendation 21:**

**ESN may ensure that operational and financial closure of projects is completed in a timely manner, as per operational guidelines.**

179. Management while accepting the recommendation stated that efforts are being made for effective monitoring of projects and timely project closure.

### **Contribution towards Office of Evaluation (OED) Trust Fund.**

180. As per OED Trust Fund Guidelines, projects with budgets equal to or below the evaluation threshold (4 million up to 29.06.2023 and 6.2 million from 30.06.2023) and no contractual requirement for OED to conduct an evaluation, shall set aside and transfer 0.8 percent of their budget to the OED Trust Fund. Project budget holders are responsible for setting aside the Trust Fund contribution in their respective project budgets and transferring the established amount to the Office of Evaluation upon starting the project.

181. We observed that in the 17 operationally active projects there has been no uniformity in contribution to the Fund, resulting in less contribution (for 9 projects), more contributions (for 3 projects) and even no contribution (for 5 projects) to OED Trust fund, with no specific reason provided for the exemption in two cases.

182. Management clarified that the payment amount is stipulated during the project review and clearance process, usually at 0.8 percent, and is reflected in FPMIS. Waiver reasons should be logged on FPMIS. OED prefers funds to be paid from the outset, but funds may stay with the project for evaluative purposes.

## **Recommendation 22:**

**Contributions to the Office of Evaluation (OED) Trust Fund as per approved rates should be transferred at the beginning of the projects by Budget Holders and a quarterly report shared with OED.**

183. Management agreed to the recommendation.

## **B.3 Performance Audit of Procurement**

### **Introduction**

184. FAO's procurement primarily centres on agricultural, forestry, and fishery products, machinery, and related services, including technical studies, construction, and information dissemination. The overall responsibility, for ensuring that FAO's procurement strategy, policies, systems and procedures support and promote ethical, transparent and timely delivery of required goods, works and services as well as ensuring that Best Value for Money, is achieved vests with the Procurement Service (CSLP).

185. The procurements of FAO are guided by the FAO Manual. FAO's procurement is decentralized, with a major portion of the procurement taking place at Decentralized Offices (DO). Procurement actions exceeding the delegated authority of the DOs is managed by CSLP. For procurement of Goods, Works and Services under MS 502,<sup>27</sup> 85 percent (USD 2 060 million) of the procurement was done by DOs, and the rest by the Headquarters. The share of DOs for procurements under MS 507<sup>28</sup> was 74 percent (USD 633.75 million) and the rest was of Headquarters.

### **Audit Objectives**

186. The Performance Audit was conducted with the objectives of ascertaining whether:

- the procurement of goods and services are being done in a fair, competitive, efficient and transparent manner, ensuring best value for money.
- the internal control frameworks, including the IT system controls are adequate

187. The audit covered the period from January 2019 to August 2023.

### **Audit Findings**

#### **Efficiency of procurement process**

188. Efficiency in procurement encompasses the capacity to obtain goods and services promptly, while optimising resource utilization and effort, and ensuring the Best Value for Money. Examination of the procurement efficiency across FAO HQ and Decentralized Offices (DOs) revealed the following:

#### **Planning process and timeliness of planning**

189. As per the FAO Manual, Budget Holders (BH) and/or Project Managers shall prepare Procurement Plans every year for all major procurement activities CSLP is responsible for developing and implementing overall procurement strategies across the Organization that ensure compliance with the principles and provisions of the FAO Manual. To implement this, CSLP introduced a SharePoint template to assist Budget Holders (BH) in creating their Annual Procurement Plans. The Manual further lists out the minimum information to be included in the Procurement Plans.

190. Our review of the procurement plans from Decentralized Offices (DOs) and Headquarters for 2022 and 2023 revealed that several key details were missing. These included the name of the relevant Lead Technical Officer (LTO) or Technically Competent Unit (TCU), procurement schedules, delivery

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<sup>27</sup> MS 502 is the FAO procurement manual for Procurement of Goods, Works and Services.

<sup>28</sup> Procurement under MS 507 refers to procurement under Letters of Agreement.

terms, funding sources, estimated budgets, and quantities. Further, CSLP/FAO lacked a mechanism to ensure timely preparation and submission of Annual Procurement Plans by Operating units and Decentralized Offices, using the prescribed template.

191. We observed that the plan did not separately quantify the procurement of goods and services. Additionally, no unique ID was assigned to planned items, making it challenging to compare planned quantities with Purchase Requisitions (PRs) and Purchase Orders (POs).

192. For the HQ's Plan, Purchase Requisitions (PR) data was available for only 14 percent of the items planned for 2022 and 4 percent of the items planned for 2023. Similarly, for the DOs, PR information was available for only 15 percent of the items planned in 2022 and 16 percent in 2023. This indicates a lack of emphasis on the Plan and the necessary data input by BHs, making it difficult to ensure that all planned procurement was executed during the year.

193. We further noted significant deviations between the Planned and actual procurement values. At FAO-HQ, in three out of the four years compared (2019, 2021, and 2022), the Plan was overestimated, with deviations ranging from 45 percent to 71 percent. In contrast, the Plan was underestimated by 36 percent in 2020. Similar discrepancies were observed in DOs, where nine countries exhibited noticeable deviations from their Plans. Four of these countries made no procurements despite having Plans, while three others made procurements without sharing any Plans. In the remaining two cases, the Plans were severely underestimated by 99.58 percent and 98.66 percent.

194. Management recognized the issue as a recurrent issue for all UN agencies procurement services and agreed to devise mechanisms for the Budget Holders (BH) to address this issue.

#### **Recommendation 23:**

**FAO to ensure compliance with the Manual. The Procurement Service (CSLP) should consider issuing instructions on timely submission of Procurement Plans, implement validation checks in SharePoint, and instruct Budget Holders to develop realistic annual procurement plans to promote better financial management.**

195. Management agreed to take action specifically with respect to introduction of validation checks in the Procurement Plan template.

#### **Planning for Letters of Agreement**

196. As per the FAO Manual, Letters of Agreement (LoAs) are cost-reimbursable service contracts used to engage non-profit entities for services that are not available on the commercial market. These agreements are typically signed with governmental, inter-governmental, non-governmental, or other not-for-profit entities registered as legal entities. LoAs play a crucial role in FAO's operations, accounting for a significant portion of its procurement activities. They help ensure that specialized services are procured in a transparent and competitive manner, in alignment with FAO's mission.

197. The FAO Manual delegates the responsibility for establishing principles and rules governing use of LoAs and for making changes to its Manual Section to Director, Logistics Services.

198. We noted that although Letters of Agreement (LoAs) formed 26 percent (USD 856.07 million) of the total procurements (USD 3 280 million) during January 2019 to August 2023, no annual LoA Plans were shared by CSLP with Audit. CSLP further stated that although a template had been made available but CSLP neither requests for, nor receives LoA procurement Plans. Therefore, unlike procurement for Goods and Services which mandates all Budget Holders to prepare an Annual Procurement Plan, CSLP/FAO has not developed any clear guidelines in Manual Section to plan for LoAs.

199. Management agreed with the recommendation and stated that it would introduce some provisions in Manual Section 507 or develop guidelines related to LoA planning, clearly defining responsibilities for the same.

#### **Recommendation 24:**

**We recommend that CSLP establish a well-defined policy framework for planning Letter of Agreement (LoA) procurements and designate clear responsibility for its oversight.**

200. Management accepted the recommendation.

### **Long-Term Agreements**

201. The FAO Manual outlines the terms and conditions for Long-Term Agreements (LTAs), under which vendors commit to supplying flexible quantities of goods, works, or services over a set period, aiming to enhance cost-effectiveness and reduce administrative burden of repetitive supplier selection and contract awards.

202. Between January 2010 and August 2023, FAO entered into 670 LTAs, with 494 (74 percent) initiated by 79 Decentralized Offices (DOs) and the remainder by Headquarters (HQ). Notably, 63 percent of the DO-initiated LTAs were concentrated in just 15 DOs, while the remaining 37 percent were distributed across 64 DOs, indicating limited LTA use in many DOs. Several FAO Offices did not utilize LTAs for frequently procured services such as office supplies, event management, vehicle rental, and maintenance, missing opportunities for improved efficiency and cost savings.

203. CSLP acknowledging its responsibility for global LTAs emphasized the need for coordination across units to promote efficiency, transparency, and value for money. CSLP also cited data integration issues, where LTAs and purchase orders are not fully visible in the GRMS system.

204. Management agreed that it would continue raising awareness and encourage Country Offices to establish LTAs, where deemed appropriate, as per existing guidelines.

### **Recommendation 25:**

**CSLP to encourage more LTAs for goods and services with sustained demand to optimize procurement, while adhering to regulations. CSLP to focus on FAO offices that were making only limited use of LTAs.**

205. Management accepted the recommendation.

### **Procurement timelines**

206. As per the FAO Manual, one of the principal objectives of FAO's procurement activities is the timely acquisition of goods, works and services in a fair, competitive, and transparent manner, while ensuring fitness for purpose to meet the user's requirements, as well as Best Value for Money. CSLP, as the business owner of procurements, is mandated to make policies and strategies that ensure timely procurement for FAO operations.

207. We reviewed purchase orders (POs) issued by FAO Headquarters (HQ) and randomly selected 10 Country Offices over the past five years. Data from FAO's iMIS dashboard revealed that information on promised and actual delivery dates was available for 8 823 POs from FAO-HQ and 10 962 POs from the selected DOs.

208. Our analysis showed that 65 percent of POs at FAO-HQ were not delivered within the promised date. Similarly, in the 10 DOs, 71 percent of POs (7 763 out of 10 962) missed their promised delivery dates.

209. Management conveyed the limitations and reliability concerns of the GRMS system data. They further committed to address these issues during the implementation of the new ERP system. In the interim, Management confirmed continued efforts to raise awareness among stakeholders and in encouraging buyers to update Purchase Orders (POs) with accurate delivery dates.

### **Recommendation 26:**

**CSLP to review and identify solutions to address the root causes of significant delays or inaccurate reporting of delayed deliveries of goods and services to Functional Units/Projects.**

210. Management partially agreed with the recommendation.

## **Sustainable procurement**

211. The FAO Manual defines Sustainable Procurement (SP) as the practice of integrating requirements, specifications and criteria that are compatible and in favour of the protection of the environment, of social progress and of economic development, in order to seek resource efficiency, improve the quality of products and services and ultimately optimize costs. SP shall be included in the Solicitation and Contract Documents as appropriate and as detailed in the FAO Manual. Further, the manual mandates FAO HQ and DOs to establish a dedicated lot reserved for local small and medium sized suppliers. Additionally, the Manual emphasises FAO's commitment to setting requirements and aiding suppliers in developing the capacity to meet the growing demands of Sustainable Procurement and FAO's aspiration to engage all suppliers in this process through an inclusive and supportive approach.

212. CSLP has prepared a guidance note on "Planning for Sustainability" for the integration of Sustainable Procurement (SP) considerations into its decision-making during procurement and also, since 2022, instructed Buyers to incorporate the "Sustainability" element as part of the Annual Procurement Plan. This was implemented by DOs starting in 2022.

213. The position in DOs in 2023 indicated a positive shift towards a greater emphasis on sustainability within procurement planning compared to 2022. However, HQ presented a low rate of compliance (8 percent of total 227 items in Plan). A detailed examination brought out that Sustainability considerations were not included in solicitation for bids and at bid evaluation stage.

214. Management stated that all projects are designed and assessed against FAO's sustainability criteria (i.e. Gender Equality, Decent Rural Employment, Indigenous Peoples and Capacity Development) and go through an Environmental and Social Risk screening for the identification, avoidance and minimization of project impacts. Depending on the identified risk level, other Environmental and Social Standards instruments are introduced and the same may be reflected in the ToRs (Environmental and Social Impact Assessment, etc).

215. No documentary evidence or information regarding the creation of dedicated lots reserved for local small and medium sized suppliers for either HQ or Dos, nor specific measures undertaken to realize capacity development goal were made available for review.

216. Management agreed to explore the possibility of making "sustainability considerations" in the Procurement Plan mandatory. However, for creation of separate lots for SMEs, Management stated that this would limit opportunities for SMEs.

### **Recommendation 27:**

**CSLP to: a) take steps to implement Sustainability practices progressively; b) strengthen engagement with Buyers and Requisitioners to enhance sustainability integration in procurement planning, with a particular focus on Headquarters; and c) establish separate lots for local small and medium sized suppliers, demonstrating a tangible commitment to translating policy into meaningful action and take concrete steps and initiatives to assist all suppliers in transitioning to Sustainable Procurement.**

217. Management agreed to the recommendation.

## **Fairness and transparency in procurement process**

218. According to the FAO Manual, achieving Best Value for Money is a guiding principle for procurement and one of the factors for determining Best Value for Money is competitive, fair, ethical and transparent sourcing that is conducted consistently, in accordance with best practices.

219. The total procurements from January 2019 to August 2023 was USD 3 280 million, out of which USD 2 420 million (74 percent) was for Goods, Works and Services and USD 860 million (26 percent) was under LoAs. In case of LoAs, competition forms a small share (23 percent, USD 196.24 million) of the total procurements. In this regard, we noticed the following:

## Selection of service provider for Letter of Agreements

220. As per the FAO Manual, the selection of the Service Provider must be transparent, impartial and well-documented and through Direct and Competitive Selection. We noted the following figures for Competitive Selection for FAO for the years 2019-2023.

**Table 6**

Year	2019 (% of year total)	2020 (% of year total)	2021 (% of year total)	2022 (% of year total)	2023 (% of year total)	Total (% of year total)
<b>Competitive Selection</b>	508(15)	603(22)	496(14)	501(18)	381(19)	2 489 (17)
<b>Direct Selection</b>	2 843(85)	2 108(78)	3 125(86)	2 247(82)	1 597(81)	11 920(83)
<b>Total</b>	3 351	2 711	3 621	2 748	1 978	14 409

221. The above table reveals that, during the last five years (2019-2023), Competitive selection formed only 17 percent (2 489) while majority of the LoAs (83 percent, 11 920) were entered into through Direct Selection. Thus, competitive selection was very limited in procurement under LoA, and there was a need to increase procurement through competitive selection to ensure that Best Value for Money is achieved on the principles of transparency and fairness.

222. The FAO Manual permits Direct Purchase in cases where competitive selection is either not feasible or unlikely to provide financial or reputational benefits. We observed that Direct Procurement accounted for 16 percent (1 872) of the total procurements (11 920) from January 2019 to August 2023, with a procurement volume totalling USD 119.98 million.

223. Management accepted the observation and stated that it would consider introducing additional guidance in the relevant portions of the FAO Manual.

### **Recommendation 28:**

**Management to consider issuing a guidance note/ modifying the relevant FAO Manual Section to increase procurement through competitive selection.**

224. Management accepted the recommendation.

## Issues in selection process

225. The FAO Manual outlines provisions for competitive selection to ensure transparency, consistency, and fairness in the evaluation process. However, in the following instances, we observed deviations from procurement guidelines and best practices that could undermine the principles set forth in FAO's Procurement Manual.

### **Hiring of helicopter for Locust Survey and Control Operations, Somalia**

226. In September 2020, FAO signed a contract for hiring two rotary wing aircrafts (helicopters) with experienced crew and all related logistics support to carry out locust survey and control (spraying) operations in Somalia at a price of USD 799 900. The contract period was for a minimum of one month, extendable up to a maximum period of three months and was contingent upon the availability of funds and the development of the locust situation. It was noticed in this contract that the original contract period of one month was extended up to 17 months at a contract value of USD 11 662 200, with a huge increase of USD 10 862 300 as against the original contact cost, due to the following discrepancies in award of the contract:

### **Inadequate assessment of requirement and procedural lapses**

227. According to FAO reports dating back to the beginning of 2020, the situation in Somalia was consistently categorized as having the highest threat level and was predicted to persist well into the year's end. However, FAO did not contemplate including a clause on the possibility of extending the contract beyond the initial three months period which could have provided prospective bidders with an

understanding that the contract might encompass a more extended timeframe, thereby facilitating a more informed and competitive bid response.

228. Management stated that the initial request was only for three months, owing to the short-term funding and the need for constant revalidation of requirements from Plant Protection and Production Division (NSP)/Office of Emergencies and Resilience (OER) and also agreed that Desert Locust Information Service (DLIS)/Data collection system for monitoring, early warning and forecasting in addition to expert knowledge of Desert Locust should be further used/optimized to plan beyond the immediate response, offering better operational visibility.

### **Ex-post facto reviews for extension of contact period**

229. Manual Section 502.9.9 permits review on ex-post facto basis only within 60 calendar days from the issuance of the contractual agreement. Failure to submit a procurement action for ex-post review within the designated period may be subject to administrative action as deemed appropriate and necessary by the Director, CSL including but not limited to revision of delegation of authority and re-consideration of ad hoc re-delegation of authority.

230. However, the ex-post facto review and approval by Headquarters Procurement Committee (HQPC) for each extension of this contact were not taken as and when required but were clubbed together, resulting in four ex-ante and seven ex-post reviews. Further, out of the seven ex-post reviews, in three cases, the approvals were taken beyond 60 days, with the duration ranging from 73 to 130 days.

231. Management attributed the delay to last minute requests for contract extensions and funding issues, limited staffing resources and heavy workload. The reply is not tenable, as the Manual allows a very reasonable period of 60 days for HQPC approvals.

### **Discrepancy in procurement of Chlorpyrifos for Desert Locust Operation, Ethiopia**

232. To combat the L3 emergency of Desert Locust in Ethiopia, the Country office awarded (in October 2020) contracts for procurement of 60 000 litres of Chlorpyrifos, through a Best and Final Offer (BAFO). The quantity to be procured was subsequently increased to 120 000 litres for USD 1 480 230.

233. The following discrepancies were noticed in this purchase:

### **Non-transparent award of Contract to the second lowest bidder**

234. In accordance with MS 502.8.9.6.2, it is imperative that all requirements, guidelines, documents, clarifications, and relevant information are formally communicated in writing to all vendors invited to submit a Best and Final Offer (BAFO).

235. However, in the above purchase, the local purchase committee (LPC) recommended that additionally requested quantity of 60 000 litres be awarded to the second lowest bidder who promised a delivery time in 4 weeks, on the assumption that the lowest bidder, would not be able to supply the whole quantity of 120 000 litres in 6 weeks at the price it quoted for 60 000 litres. However, no confirmation was found to be taken from the lowest bidder in this regard, as prescribed by Manual.

236. Management stated that the re-sending of another BAFO for 120 000 litres at a later stage may have compromised the entire tender process. Further, the second lowest bidder promised a shorter delivery time of 4-5 weeks, as against 6 weeks by the lowest bidder in such an emergency need. The contention of the management does not hold good as the initial delivery period as mentioned in FAO's call for submission of BAFO was 4 to 6 weeks and the lowest bidder quoted 5 weeks delivery time in its BAFO.

### **Non-review of award by HQPC**

237. Manual section 502.10.1.2.3 defines distributed award as recommendations to award for required quantities of goods, works or services distributed amongst one or more Vendors in addition to the highest-ranked (lowest) Vendor. Further, MS 502 prescribes that the recommendations for



distributed award<sup>29</sup> above USD 200 000 requires review by HQPC. However, in this case awards were made without any HQPC review.

238. In response, Management stated that HQPC approval was not required in this case, as the selection was through competition and the award was based on partial quantity meeting the delivery time.

239. However, the decision to increase the quantity was taken after BAFO (which was for 60 000 litres only) and the increased quantity was awarded to the second lowest bidder without taking any written confirmation from the highest ranked bidder. Accordingly, the award does not conform to the definition of partial quantity and can be treated only as distributed award. Thus, in this case HQPC review was bypassed.

### **Deficiency in planning and Undue favour by extending LTA**

240. As per MS 502.11.4 an LTA may be for any period up to five years.

241. For the provision of ordinary, extraordinary maintenance, renovation and construction works at FAO premises in Rome, FAO, after a competitive selection, entered into three LTAs with three firms in August 2017 for one year which was extendable for two additional periods of two years each (total five years). The contract<sup>30</sup> with one firm, was extended for five years through two amendments. Later, in lieu of initiating a new tender process well before the existing contract's expiration, the LTA with two firms was extended beyond five years for a period of 9 months, through a subsequent amendment, with HQPC approval as required by MS 502.

242. Instead of the decision to extend the contract which had been in place for a five-year duration, Management should have taken timely action to publish a fresh Invitation to Bid (ITB). This lacuna reflects planning deficiency.

243. Management attributed the delay to change in contract manager and the need to improve the solicitation documents and the requirements.

#### **Recommendation 29:**

- a) **CSLP to improve oversight and monitoring mechanisms to ensure that Procurement Authorities adhere to the Manual provisions and that a fair and transparent process is followed.**
- b) **CSLP to actively engage with the Requesters/Budget Holders so that they plan and initiate procurements with sufficient lead time before a contract's expiration, to reduce the necessity of granting avoidable extensions.**

244. Management agreed to introduce a suitable monitoring mechanism. However, in respect of the latter recommendation, Management stated that the same has already been implemented with mechanisms in place viz. planning tools, regular meetings, reminders, and system alerts.

245. It is emphasized that Budget Holders should be encouraged to plan and initiate procurements with sufficient lead time before a contract's expiration, to reduce the necessity of granting avoidable extensions, as noticed in the cases elaborated in the paragraphs 241 to 243.

### **Internal Controls in Procurement**

246. Effective internal control systems, coupled with an established accountability framework, are key measures for risk mitigation.

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<sup>29</sup> As per the MS 502.10.1.2.3, the buyer may recommend that an award for required quantities of goods, works or services be distributed amongst one or more Vendors in addition to the highest-ranked Vendor (Distributed Award).

<sup>30</sup> Contract No. 2017/HQR/CSAID-CPA 328366 and CPA 339904.

## **Segregation of Duties as per the provisions of Manual**

247. The FAO Manual prescribes that segregation of duties will at a minimum, separate the functions of Requisitioner, Budget Holder, Buyer, Receiver and Payer.<sup>31</sup>

248. Our analysis revealed that out of 146 013 POs issued by FAO in the last five years, in 8 553 cases (5.85 percent) there were overlapping roles, where the Buyer also served as the Requisitioner, Approver, or Invoice Route To.<sup>32</sup> Similarly, in 4 081 POs (HQ: 470, DOs: 3 611), the Buyer and Requisitioner were the same. Management stated that the upcoming rollout and implementation of a SoD solution (ERP) globally would address the issue.

249. The FAO Manual also requires that responsibility for the functions of preparation, quality assurance and approval must be adequately segregated. The Responsible Officer is typically involved in the initiation and oversight of the procurement process, while the Authorized Official is responsible for approving and authorizing the procurement. Combining these roles in one person can lead to conflicts of interest, where the individual may not objectively evaluate the procurement needs and approvals. We noted that in 1 406 Purchase Orders (during 2019 to 2023 August) worth USD 51.37 million, the Responsible Officers were same as the Authorized Officials, implying that the roles were overlapping, in departure from the Manual Provisions.

250. Management attributed this partly to inappropriate data entry and agreed to collaborate with IT services (CSI) to introduce appropriate system controls to reinforce segregation of duties.

## **Non-integration of IT systems**

251. On review of the digitalization of procurement process of FAO, it was noted that the various stages of procurement lifecycle of FAO are not integrated in FAO's Enterprise Resource Planning (ERP) Software called Global Resource Management System (GRMS) and are either carried out through standalone IT systems/web-based IT application, namely, 'In Tend', iMIS, MS SharePoint etc. or Offline/Manual process. The fragmented and unintegrated IT platforms, not only impact the procurement stages but also hinder monitoring, documentation, and audit trail, affecting internal controls. The dashboard utilized by CSLP, and other procuring authorities relies solely on GRMS data, lacking integration with SharePoint or In-Tend and limiting comprehensive monitoring and insights. Technical clearances are obtained through email or paper-based forms, leading to inconsistent documentation practices and complicating ex-post reviews. The absence of technical clearance dates in the system further hinders time frame establishment and monitoring. This lack of a comprehensive audit trail and uniform practices raises concerns about system performance and transparency.

252. CSLP agreed that the system, even with complete documentation, is fragmented and does not facilitate a remote ex-post review. Further, it expressed concerns about information confidentiality, since GRMS does not have provision to selectively assign viewing rights.

## **Duration of Letters of Agreement**

253. According to the FAO Manual, the duration of Letters of Agreement (LoAs) should not exceed 18 months. Any LoAs extending beyond this period must be justified and approved by the Authorized Official, following an assessment of potential risks and expected benefits, as documented in the Note for the File (NFF) provided by the Responsible Officer.

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<sup>31</sup> Requisitioner: The individual who identifies the need for goods or services and initiates the procurement process by creating a purchase requisition.

Budget Holder: The person responsible for managing and authorizing expenditures within a specific budget, ensuring that funds are used appropriately.

Buyer: The individual responsible for sourcing, negotiating, and purchasing goods or services from suppliers to meet the Organization's needs.

Receiver: The person who accepts and verifies the delivery of goods or services, ensuring they meet the specified requirements.

Payer: The entity or individual responsible for processing payments to suppliers for goods or services received.

<sup>32</sup> After the goods or services are received, the invoice is routed to the appropriate departments for verification against the purchase order and delivery receipts.

254. We observed that in the past five years, 625 LoAs were issued with durations ranging from more than 18 to 53 months. A random test check of 10 Purchase Orders (POs) revealed that the NFF was available in the Global Resource Management System (GRMS) for only 5 POs, and justification for exceeding the 18-month duration was present for only one PO.

255. Management responded that they would introduce system validation to prevent the non-attachment of NFFs.

256. Management attributed these delays to delayed service delivery, highlighting a lack of comprehensive monitoring mechanisms for LoAs and the absence of systemic measures to effectively manage and monitor service delivery, performance evaluation, and contract management of LoAs.

### **Non-invocation of liquidated damages**

257. The FAO Manual provides the Buyer to invoke liquidated damages (LD) as one of the remedies, when the terms of the purchase order or contract are not fulfilled properly or Vendor performance is otherwise unsatisfactory.

258. We noted that Goods or services were not delivered within the promised date for 5 750 (65 percent) of the 8 823 POs in FAO HQ and in 7 763 POs (71 percent) of the 10 962 POs in 10 DOs.<sup>33</sup> Among the above instances, Liquidated damages were invoked only for 131 POs, in total (0.12 percent of the delayed cases in FAO HQ and 1.6 percent of the delayed cases in 10 DOs).

259. These highlighted potential deficiencies in contract management by CSLP and Country Office Procurement Authorities. Management stated that application of LD is contemplated only in substantiated case of damage due to delayed delivery when FAO was not at fault. It also expressed concern over accuracy of the data relating to the date of delivery, as mentioned in earlier paragraphs. However, Management agreed to remind buyers of referring and substantiating the potential Liquidated damages cases to CSLP to further investigate and, if appropriate, trigger an alert to Procurement staff/Contract Manager for delayed delivery beyond six months.

### **Reliance on a single vendor**

260. MS 502.3.2 on Vendor Management underscores the necessity for vendor diversification by way of periodically identifying new vendors and ensuring that local Vendor records are regularly updated and maintained.

261. In Sri Lanka DO, out of the total procurements of USD 40.41 million during January 2019 to August 2023, 82 percent (USD 33.14 million involving 4 POs) comprised procurement of fertilizers sourced from a single vendor during the period from December 2022 to July 2023. Out of this only 17 percent was through competitive bidding, while the remaining was through Direct Purchase (25 percent) and Exceptional award (58 percent). There was a need to identify new vendors periodically for diversification of vendors, to mitigate the risks of over reliance on a single vendor and have a fair competitive and efficient procurement process.

262. Management stated that in previous years high quantity of fertilizers was not purchased, and therefore periodic market research did not take place.

### **Recommendation 30:**

- a) **CSLP to conduct periodic reviews to ensure compliance with the procurement manual. Additionally, CSLP to establish a systemic validation mechanism to prevent conflicts of interest.**
- b) **CSLP to collaborate with the Division of Digitalization and Informatics (CSI) during the ERP system update, to implement a robust audit trail with strong validation controls and selective access rights. Effective processes should be introduced to ensure timely fulfilment of obligations and payments, with system alerts for delays.**
- c) **CSLP to also enhance quality assurance processes, train personnel to accurately input data into the ERP system, review and improve contract management procedures with a focus on**

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<sup>33</sup> Afghanistan, Congo, Ethiopia, Hungary, Pakistan, Somalia, South Sudan, Sri Lanka, Syria and Yemen.

**linking Liquidated Damages to delivery performance, and conduct periodic market surveys to diversify the vendor pool.**

263. Management noted the recommendations.

## **C. COMPLIANCE AUDIT FINDINGS**

### **Investment & Treasury Management**

#### **Appointment of Investment managers**

264. FAO issued a tender (November 2020) for selection of an investment manager for FAO's developed market equity portfolio. The Investment Committee (IC) endorsed the selection of an Investment Manager in September 2021.

265. We acknowledged the efforts by management for selecting the investment manager. However, we noted that the final agreement with the Investment Manager was not signed, and the investments were not transitioned to the manager until February 2023. This resulted in a 17-month delay between the IC's endorsement and the signing of the agreement, with funds held in a Northern Trust (NT) Transition Account for nearly three years while awaiting the finalization of a new fund manager.

266. Management attributed the delay to protracted negotiations related to FAO's privileges and immunities and also stated that such requirements are often new to FAO's investment partners. Hence, the review and negotiation of investment agreements are not straightforward. The IC was kept abreast of the contract negotiation phases.

#### **Recommendation 31:**

**FAO Management to strengthen monitoring to improve on the time taken for on boarding of new fund managers.**

267. Management accepted the recommendation.

#### **Long-Term (L-T) Investment Policy**

268. The policy for long-term investments, guiding FAO's approach to long-term investments, defined Strategic Asset Allocation (SAA) with 60 percent return seeking assets and 40 percent risk reducing assets, including a 10 percent investment in real estate asset as return seeking asset.

269. We observed that in the L- T Investment Policy, though benchmarks for various asset classes have been defined to compare the performance, no benchmark for real estate asset class has been defined.

270. FAO's long-term investment policy Strategic asset allocation mandates investment in developed markets equity (37.5 percent), emerging market equity (12.5 percent), real estate (10 percent) and fixed income investments (40 percent).

271. At the end of December 2023, we observed that while long-term investments were allocated to developed market equities (39.47 percent), emerging market equities (11.76 percent) and fixed income investments (48.77 percent), there were no investments made in real estate assets. This resulted in the failure to meet the objectives outlined in the investment policy regarding real estate assets.

272. Management explained that the change in long-term strategic asset allocation (SAA) coincided with the renewal of the Investment Committee in October 2020. The Committee did not recommend proceeding with the previously approved long-term SAA and instead requested a revision of market conditions through a new Asset-Liability Management (ALM) study.

#### **Cash & cash equivalent and FX derivatives**

273. We further observed that, as of 31 December 2023, cash and cash equivalents, along with FX derivatives valued at USD 5.25 million (representing 1.6 percent to 1.8 percent of the portfolio value), were included in each fund manager's portfolio. However, these asset classes and their respective weights have not been explicitly defined in the Strategic Asset Allocation (SAA).

274. To ensure a more streamlined and strategically sound management of cash and cash equivalents, Management should incorporate these asset classes into the revised Strategic Asset Allocation (SAA) policy. This will provide clearer guidance on their role and appropriate weighting within the overall portfolio.

**Recommendation 32:**

- a) **FAO to review its long-term investment policy to clearly define a balanced Strategic Asset Allocation (SAA), incorporating all relevant asset classes to facilitate comprehensive performance comparison.**
- b) **FAO to establish specific weightings for cash and cash equivalents, as well as Foreign Exchange (FX) derivatives, within each portfolio to provide clearer guidance and improve the monitoring of fund managers performance.**

275. Management noted the recommendation while stating that they follow industry best practice and guidance in this regard and that FAO will craft a new long-term policy upon reviews being conducted by CSF and the Investment Committee.

## **Internal Control**

### **Implementation of Control Points in Internal Control Questionnaire**

276. FAO has implemented an annual internal control reporting process in which all heads of offices and division directors submit internal control self-assessment checklist for review and validation and facilitating a statement on the effectiveness of internal controls to the annual financial statements of FAO.

277. Review of the Internal Control questionnaires (ICQs) prepared for Chad and Kenya in 2022 revealed that

- In Chad, out of 45 control points (2021: 43), 13 control points (2021: 14) were partially implemented in 2022.
- In Kenya, out of 44 applicable control points, 26 remained partially implemented in 2022 of which 15 were partially implemented in 2021 also.

278. Management agreed to take immediate corrective measures to enhance the internal control processes to reduce the number of control points that are partially implemented to have them in fully implemented status.

**Recommendation 33:**

**Management to monitor the control points in their ICQs with special attention to those that have consistently remained partially implemented.**

279. Accepting the recommendation, Management stated that they are monitoring the Control Points for their full implementation.

### **Long pending Value Added Tax refund dues**

280. In Uganda, as of September 2023, the VAT claim due from the government was to the extent of UGX 2 208 406 812 (equivalent to USD 802 227) pertaining to the period from 2013 to 2019.

281. Management attributed the delay to a change in the regulatory environment and stated that most of the amount of 2013-19 relating to rejections/ resubmissions would be resubmitted in the changed tax environment and the rest for 2020-22 would be completed by November 2023.

282. In Ghana, the outstanding balance (as of October 2023) of VAT refund claims was GHS 495 948 (2022: GHS 232 428, 2023: GHS 263 520) without any follow up action noticed. IMIS showed VAT dues of GHS 990 404, including old dues pending from the year 2015 to 2020.

**Recommendation 34:**

**FAO to suitably pursue the matter of speeding up recovery of pending Value-Added Tax (VAT) refunds due with the respective revenue authorities.**

283. Management, agreed to reconcile the overdue VAT refunds/claims for earlier periods and work with CSF to take appropriate action.

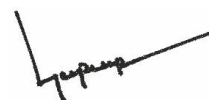
**D. DISCLOSURES BY MANAGEMENT**

284. The terms of reference on External Audit require the disclosures of important information. In this connection, FAO Management provided disclosures in respect of cases of fraud and ex-gratia payments (Annexure 2).

**E. ACKNOWLEDGEMENT**

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

**Date: 11 October 2024**



**(Girish Chandra Murmu)  
Comptroller and Auditor General of India**

**Abbreviations and acronyms used in the Report**

<b>AOS</b>	Administrative and Operational Support
<b>BH</b>	Budget Holder
<b>CAG</b>	Comptroller and Auditor General
<b>CAR</b>	Country Annual Report
<b>CO</b>	Country Office
<b>CPF</b>	Country Programming Framework
<b>CSH</b>	Human Resources Division
<b>DDG</b>	Deputy Director-General
<b>DO</b>	Decentralized Office
<b>EBR</b>	Extra-budgetary Resources
<b>EOD</b>	Entry on Duty
<b>ERP</b>	Enterprise Resource Planning
<b>ESN</b>	Food and Nutrition Division
<b>ESNA</b>	Nutrition Assessment (Unit of ESN)
<b>ESNE</b>	Nutrition Education and Consumer Protection
<b>ESNP</b>	Nutrition Policies and Programmes (Unit of ESN)
<b>FAO</b>	Food and Agriculture Organization
<b>FLW</b>	Food Loss and Waste
<b>FPMIS</b>	Field Programme Management Information System
<b>GEF</b>	Global Environment Facility
<b>ICN2</b>	The Second International Conference on Nutrition
<b>IFAD</b>	International Fund for Agricultural Development
<b>iMIS</b>	Integrated Management Information System
<b>LoA</b>	Letter of Agreement
<b>MLVC/ESNV</b>	Market Linkages and Value Chains
<b>N4G</b>	Nutrition for Growth
<b>NAF</b>	Nutrition Accountability Framework

<b>NM</b>	Nutrition Makers
<b>NSHR</b>	Non-Staff Human Resources
<b>NTE</b>	Not to Exceed
<b>OED</b>	Office of Evaluation
<b>OSP</b>	Office of Strategy, Programme and Budget
<b>PO</b>	Purchase Order
<b>PPA</b>	Programme Priority Area
<b>PSR</b>	Resource Mobilization Division
<b>PSS</b>	Project Support Division
<b>RM</b>	Resource Mobilization
<b>RO</b>	Regional Office
<b>SMART</b>	Specific, Measurable, Achievable, Relevant and Time-bound.
<b>TSS</b>	Technical Support Services
<b>UN</b>	United Nations
<b>UNCCA</b>	United Nations Common Country Analysis
<b>UNDP</b>	United Nations Development Programme
<b>UNGA</b>	United Nations General Assembly
<b>UNICEF</b>	United Nations Children's Fund
<b>USA</b>	United States of America
<b>USD</b>	United States Dollar
<b>WFP</b>	World Food Programme
<b>WHO</b>	World Health Organization



### **Annexure 1: Changes made on the recommendations of audit**

The following adjustments/disclosures were made by FAO in the financial statements:

1. Based on the recommendation on non-provisioning of locally recruited consultants dangerous duty station supplement, FAO streamlined the monthly payroll accounting system so that the NSHR expenses are recorded in the period for which they are due.
2. Financial Statement Note disclosure 2.7 was amended to clarify the exchange rate applied to investments for the purposes of reporting in USD.
3. Note disclosure 2.35 was revised to include details on provisioning for “Prepaid and other assets”, including specific reference to VAT Receivables.
4. Note disclosure 5 was revised to differentiate between invoiced and unbilled receivable balances.
5. Note disclosure 2.35 was revised to disclose the accounting policy on the provision for employee receivables.

The amount for accounts payable was restated to segregate the payments received in advance.

## Annexure 2

### **Disclosures by FAO Management on ex-gratia payments and cases of fraud and presumptive fraud**

#### **A. Cases of fraud and presumptive fraud under review in 2022**

Case 1. (Previously reported as Case 12 in the 2023 letter) OIG conducted an investigation into allegations that a FAO vendor colluded with another FAO vendor in the preparation of its bids for the supply of farm equipment being procured by a country office (see Case 2 below). At the end of its review, OIG determined that the evidence did not support a finding that the two companies colluded, but that the FAO vendor improperly gained access to another FAO vendor's confidential information through a former employee, which allowed the use of this information when participating in the FAO tender at issue in the case. The matter was submitted to the Vendor Sanctions Committee (VSC). The Procurement Service (CSLP) has completed the sanctions procedure process. The sanction of a three-year debarment was imposed on the vendor on 26 February 2024. The case is closed.

Case 2. (Previously reported as Case 13 in the 2023 letter) OIG conducted an investigation into allegations that a FAO vendor colluded with another FAO vendor in the preparation of its bid for the supply of agricultural inputs and that the same vendor submitted fraudulent documentation in connection with a different bid for farm equipment (see Case 1 above). At the end of its review, OIG determined that the evidence was insufficient to substantiate the allegations. The case is closed.

Case 3. (Previously reported as Case 15 in the 2023 letter) OIG conducted an investigation and found that a FAO vendor submitted fraudulent documentation as part of its bid submission in response to two different procurement actions. The investigation further found that the evidence was insufficient to conclude that the same vendor colluded with another FAO vendor in the submission of its bid in relation to one of the above-mentioned procurement actions (see Case 10 below). The matter was submitted to the VSC and CSLP has completed the sanctions procedure process. The sanction of a five-year debarment was imposed on the vendor on 26 February 2024. The case is closed.

Case 4. (Previously reported as Case 16 in the 2023 letter) OIG conducted an investigation and found that a FAO vendor submitted fraudulent documentation as part of its bid for the supply of agricultural inputs. The matter was submitted to the VSC and CSLP has completed the sanction procedure process. The sanction of five-year debarment was imposed on the vendor on 28 June 2023. The case is closed.

Case 5. (Previously reported as Case 17 in the 2023 letter) OIG conducted an investigation and found that a former member of FAO personnel who had a national project personnel contract colluded with multiple vendors in the selection, award and issuance of contracts for FAO promotional materials (see Cases 6-12-13-14 below), and with whom the FAO personnel had close family relationships. Lastly, the former member of FAO personnel failed to disclose their relationship with the vendors. The subject of the investigation left the Organization before the investigation was completed. OIG did not identify any loss. The case is closed.

Case 6. (Previously reported as Case 18 in the 2023 letter) OIG conducted an investigation and while it did not find that a FAO vendor colluded with a member of FAO personnel (see Case 5 above) in the preparation of its bids for promotional materials, the investigation concluded that the vendor violated its obligations under the UN supplier code of conduct. The matter was submitted to the VSC and CSLP has completed the sanction procedure process. The sanction of two-year debarment was imposed on the vendor on 28 June 2023. The case is closed.

Case 7. (Previously reported as Case 19 in the 2023 letter) OIG conducted an investigation and found that a FAO vendor colluded with another vendor (see Case 8 below) in the preparation of its bid for the construction of multi-purpose centres. The matter was submitted to the VSC and is pending a decision on whether to initiate sanctions proceedings.

Case 8. (Previously reported as Case 20 in the 2023 letter) OIG conducted an investigation and found that a FAO vendor colluded with another vendor (see Case 7 above) in the preparation of its bid for the

construction of multi-purpose centres. The matter was submitted to the VSC and is pending a decision on whether to initiate sanctions proceedings.

Case 9. (Previously reported as Case 21 in the 2023 letter) OIG is investigating allegations that a staff member colluded with a vendor for the award of a contract for infrastructure works at a FAO Representation. The investigation is ongoing.

Case 10. (Previously reported as Case 22 in the 2023 letter) OIG conducted an investigation into allegations that a FAO vendor colluded with another FAO vendor (see Case 3 above) in the preparation of its bid for the supply of agricultural inputs. At the end of its review, OIG determined that the evidence was insufficient to substantiate the allegations. The case is closed.

Case 11. (Previously reported as Case 23 in the 2023 letter) OIG conducted an investigation and found that a staff member submitted a false declaration in relation to rental subsidy amounting to approximately EUR 7 400 in undue payments to the staff member. The disciplinary measure of dismissal was imposed upon the staff member. The case is closed.

Case 12. (Previously reported as Case 25 in the 2023 letter) OIG is investigating allegations that a FAO vendor colluded with a member of FAO personnel (see Case 5 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 13. (Previously reported as Case 26 in the 2023 letter) OIG is investigating allegations that a FAO vendor colluded with a member of FAO personnel (see Case 5 above) in the preparation of its bids for promotional materials. The investigation is ongoing.

Case 14. (Previously reported as Case 27 in the 2023 letter) OIG investigated allegations that a FAO vendor colluded with a member of FAO personnel (see Case 5 above) in the preparation of its bids for promotional materials. At the end of its review, OIG determined that the evidence was insufficient to substantiate the allegations. The case is closed.

Case 15. (Previously reported as Case 28 in the 2023 letter) OIG conducted an investigation and found that a staff member used their position with the Organization to fraudulently represent that they were entitled to an exemption to otherwise applicable taxes when purchasing goods and services from vendors at the duty station. The disciplinary measure of dismissal was imposed upon the staff member. The case is closed.

Case 16. (Previously reported as Case 30 in the 2023 letter) OIG conducted an investigation and found that a staff member had created a false document to be used in connection with an insurance claim to be made on behalf of the Organization. The disciplinary measure of one-week suspension without pay was imposed upon the staff member. The case is closed.

Case 17. (Previously reported as Case 31 in the 2023 letter) OIG conducted an investigation and found that seven vendors colluded amongst themselves to misrepresent that their bids were independent of the other bids and therefore competitive, in order to improperly influence the outcome of the evaluation for award. The matters were submitted to the VSC and CSLP has completed the sanction procedure process. The sanction of three-year debarment was imposed on the vendor on 28 June 2023 for two vendors. The case is closed.

## **B. Cases under review in 2023**

Case 18. (Previously reported as Case 32 in the 2023 letter) OIG conducted an investigation and found that a staff member assisted another staff member in fraudulently representing that they were entitled to an exemption to otherwise applicable taxes when purchasing goods and services from vendors at the duty station (see Case 15 above). The disciplinary measure of demotion for unsatisfactory conduct was imposed upon the staff member. The case is closed.

Case 19. (Previously reported as Case 33 in the 2023 letter) OIG conducted an investigation and found that a former staff member submitted fraudulent supporting documentation in connection with requests for education grants to receive inflated amounts which resulted in an overpayment to the former staff member, and a loss to the Organization, of USD 159 932.06. The former staff member was debarred

from further employment with FAO and partial recovery was made from their terminal emoluments with the remainder to be recovered pursuant to an agreed repayment plan. The case is closed.

Case 20. OIG conducted an investigation and found that a member of FAO personnel engaged in a fraudulent payments scheme resulting in the misappropriation of approximately USD 1.363 million of the Organization's funds. The member of FAO personnel's contract was terminated, and recovery efforts were initiated with the assistance of the national authorities. The case is closed.

Case 21. OIG conducted an investigation and found that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. Administrative action is being taken.

Case 22. OIG conducted an investigation and found that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. Administrative action is being taken.

Case 23. OIG conducted an investigation and found that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. Administrative action is being taken.

Case 24. OIG conducted an investigation and found that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. Administrative action is being taken.

Case 25. OIG conducted an investigation and found that a staff member included false information in travel expense claims for accommodation in order to obtain an undue financial benefit. Disciplinary action is being taken.

Case 26. OIG conducted an investigation and found that a member of FAO personnel included false information in travel expense claims for accommodation in order to obtain an undue financial benefit. Administrative action is being taken.

### **C. Ongoing matters of presumptive fraud as of February 2024**

Case 27. OIG is investigating allegations that a staff member colluded with a member of FAO personnel in a fraudulent payments scheme (see Case 20 above) in furtherance of which the staff member is alleged to have knowingly approved fraudulent requests submitted by the member of FAO personnel, in exchange for a portion of the misappropriated funds. The investigation is ongoing.

Case 28. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

Case 29. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

Case 30. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit and that the member of FAO personnel also colluded with other FAO personnel to engage in the same scheme. The investigation is ongoing.

Case 31. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

Case 32. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

Case 33. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

Case 34. OIG is conducting an investigation into allegations that a member of FAO personnel included false information in a travel expense claim for accommodation in order to obtain an undue financial benefit. The investigation is ongoing.

**D. Ex-gratia payments in 2023**

FAO Management informed that there was no ex-gratia payment recorded in 2023.