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FINANCE COMMITTEE

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**Management Response to the Recommendations presented in the Report of
the External Auditor for 2022**

Queries on the substantive content of this document may be addressed to:

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EXECUTIVE SUMMARY

- The report presents the Management Response to the recommendations detailed in the Report of the External Auditor for 2022.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

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

Draft Advice

The Committee:

- **noted the Management response and proposed actions to implement the recommendations presented in the Report of the External Auditor for 2022; and**
- **encouraged the Management in its efforts to close the outstanding recommendations.**

Introduction

1. The table below presents the Management comments on the recommendations contained in the Report of the External Auditor for 2022.

Long Form Report 2022

	Recommendation	Suggested Timeline	Responsible Unit	Management Response
FUNDAMENTAL				
Financial Audit				
Non-recognition of the fair value of revenue from voluntary contributions				
1.	FAO to recognize fair value of revenue from voluntary contributions and include a corresponding disclosure in the notes to the financial statements. <i>(Paragraph 54)</i>	2023	CSF	The recommendation was implemented with the 2022 Financial Statements by applying the US Government Bond yield curve as a discounting factor to relevant revenue streams and receivables. 2021 comparative figures were restated, and explanatory note disclosures were included, accordingly.
Non-recognition of the fair value of revenue from assessed contributions				
2.	FAO Management to recognize fair value of revenue from assessed contributions due in future years and disclose its policy of individual basis adjustments to Provisions relating to Voluntary Contributions in the notes to the financial statements. <i>(Paragraph 60)</i>	2023	CSF	The recommendation was implemented with the 2022 Financial Statements by applying the US Government Bond yield curve as a discounting factor to relevant revenue streams and receivables. 2021 comparative figures were restated, and explanatory note disclosures were included, accordingly.
Non-provision for Value Added Tax receivable outstanding for more than three years				
5.	Management to indicate in their accounting policy, the criteria for valuation of doubtful VAT receivables after assessing the general trend of reimbursement of VAT and to create	2023	CSF	The recommendation was implemented with the 2022 Financial Statements by reflecting a provision against VAT receivables outstanding for 3 years or more. The provision will be further evaluated during 2023 to ensure continued compliance with IPSAS 41.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
	appropriate Provisions for doubtful VAT receivables in the Financial statements. <i>(Paragraph 81)</i>			
MANAGEMENT MATTERS				
Performance Audit of Office of Emergencies and Resilience (OER)				
Monitoring of emergency projects				
8.	Refund/transfer of unspent balances of financially closed emergency projects to be actively monitored by OER so that funds do not remain in these closed emergency projects for a considerable period of time. <i>(Paragraph 106)</i>	2023	OER/CSF	OER has updated the format of its monthly Financial Closure Report to capture details related to unspent balances and thereby further facilitate monitoring.
Programming support for resilient agrifood systems				
9.	Guidance on proactively designing projects/programmes for the PPA BL4 – Resilient Agrifood systems, to be systematized in the shape of usable templates and reference documents, while promoting complementarity between emergency interventions and resilience building over the long term. These to be placed in the Handbook for ease of access and use during project/programme	2023	OER	OER has finalized the development of the Emergencies and Resilience Programming Approach. It aims to provide a common framework for country programming and project formulation across the Emergency and Resilience Portfolio. The dissemination of this document among FAO's decentralized offices is a priority for OER. Dissemination channels include FAO's Handbook for ease of access and use during project/programme formulation so that project formulators/Country Offices take cognizance of these priority areas and actively build them into the country programming frameworks, programmes and projects.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
	<p>formulation, so that project formulators/Country Offices take cognizance of this priority area and actively build it into the country programming frameworks.</p> <p><i>(Paragraph 112)</i></p>			
Anticipatory Actions				
10.	<p>AA approach to be mainstreamed in the Emergency and Resilience efforts of the organization considering its value of investment, by building upon the evidence and analyses collected by the AA team and recommending roadmaps for setting up Early Warning Early Action systems in all Country Offices.</p> <p><i>(Paragraph 120)</i></p>	2023	OER	<p>OER continues to promote the mainstreaming of Anticipatory Action (AA) across the Organization. In particular, the following activities were implemented to support AA mainstreaming:</p> <ul style="list-style-type: none"> • Facilitated the development of a global 3-year strategic programme on AA (2023-25), which sets a roadmap for strengthening FAO's and partners' capacities in AA. • Conducted internal webinars on mainstreaming AA at country level. • Continued supporting Country Offices with capacity development on the development of AA protocols for priority hazards. • The OER Handbook includes step-by-step guidance on how to establish AA protocols. <p>As a result, in 2023, through August, more than USD 12 million was allocated from the SFERA AA window to implement anticipatory actions ahead of forecast hazards in more than 20 countries. FAO has recently published a global El Niño AA and response plan, focusing on accelerating action on El Niño induced hazards on agriculture.</p>
Issues in projects with Cash Transfer (CT) modality				
11.	<p>The good practice of following the Checklist to be continued for the benefit of expeditious assessment and clearance of cash transfer modality projects.</p>	2023	OER	<p>OER continues to regularly use the Checklist for Cash Transfer Modality Feasibility Clearance. This feasibility clearance is required for the overall operational clearance of any project with a cash transfer component.</p>

Recommendation	Suggested Timeline	Responsible Unit	Management Response
<p>OER to communicate the checklist to project formulator/budget holder for improved data collection so as to reduce inordinate delays.</p> <p><i>(Paragraph 126)</i></p>			
Information Technology Audit of Global Resource Management System (GRMS)			
IT Governance			
13.	<p>The envisioning Phase for the evolution of GRMS to target time bound achievement of truly integrated IT solution encompassing all functionalities – “One FAO – One System”.</p> <p><i>(Paragraph 145)</i></p>	2024	<p>ERP Board</p> <p>The Envisioning phase of the ERP program identified the scope of work the defined ERP roadmap and an “integration lens” for business processes. As a result of this work, an integrated solution has been identified to replace GRMS and a number of satellite ERP systems used within FAO. Implementation is planned to begin following a 6–8-month foundation Phase (currently underway), which aims to further define the level of business transformation across the Organization and develop a detailed implementation plan.</p>
14.	<p>The funding requirement for IT to be critically reviewed in the light of the projects to be initiated for the next stage of evolution of GRMS, and adequate resources made available to avoid fragmentation of IT solutions.</p> <p><i>(Paragraph 145)</i></p>	2023	<p>OSP/CSI</p> <p>We concur with the auditor’s recommendation to critically review the funding requirement for IT in the context of the next stage of GRMS evolution. We recognize the importance of allocating adequate resources to prevent fragmentation of IT solutions.</p> <p>The management is actively working to align IT funding with strategic priorities, notably considering the ongoing ERP Transformation and PROMYS projects. These initiatives serve as additional lenses through which we evaluate our investment in IT infrastructure and capabilities. Ensuring a cohesive and integrated IT environment remains a top priority, and we will ensure that the necessary financial resources are made available to support this objective.</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
Review of Licenses				
15.	CSI to review its GRMS related licensing requirements and take a financially prudent decision regarding the nature and type of GRMS related Oracle product licenses to be retained/ negotiated/ procured. <i>(Paragraph 151)</i>	2023	CSI	The ERP Board endorsed the main technology underpinning the new FAO ERP. This cloud-based technology will replace GRMS and also add new functionalities required by the Organization. During the transition period until the new technology is in place, payments for current GRMS licenses will not be required by the vendor. These will be replaced by a subscription to be procured by the Organization in the context of the ERP program of work. Discussions are underway to define the subscription modalities.
Non-implementation of Segregation of duties for Procurement within GRMS				
16.	The distinct responsibilities in GRMS to be reviewed to make them manageable and mapped to business roles in a time bound manner, to avoid SoD violations. <i>(Paragraph 159)</i>	2023	CSL	The Segregation of Duties (SoD) project is actively engaged in the process of redefining system roles using a business process methodology, with the objective of subsequently segregating conflicting ones in accordance with the principles of SoD. This project is ongoing.
Conduct of Disaster Recovery (DR) Test as per Service Delivery Agreement (SDA) of UNICC				
17.	DR test to be conducted as stipulated in Service Delivery Agreement (SDA) and the identified deficiencies be addressed to get an assurance of minimal required service delivery in case of disasters. <i>(Paragraph 165)</i>	2023	CSI	The DR test was successfully performed in May 2023 and will be repeated in Q4 2023. The tentative schedule includes a plan to perform two partial tests in Q1 and Q4 2024.

Recommendation	Suggested Timeline	Responsible Unit	Management Response	
Operational guidelines for managing Business Change Requests (BCRs)				
18.	The revised operational guidelines for managing Business Change Requests (BCRs) to be documented and formally approved by the competent authority. <i>(Paragraph 171)</i>	2024	CSI	Operational guidelines for the management of business change requests (BCRs) were defined and applied during the ERP technology upgrade project. These guidelines will be revised and presented to the ERP Transformation Steering Group governance for application during the ERP transformation programme as part of the ERP roadmap.
19.	All attributes relating to BCR as per approved operational guidelines to be populated with corresponding values in Jira Platform. <i>(Paragraph 171)</i>	2024	CSI	The JIRA environment has been established to record and manage BCRs, including the required attributes to fully qualify each BCR. The set-up of the JIRA platform will be revised in line with the adoption of the modified guidelines for the management of BCRs during the ERP transformation programme as part of the ERP roadmap.
Non-generation of IPSAS Compliant Financial Statement using GRMS				
20.	The Business Change Requests required to generate all the Financial Statements directly from GRMS to be implemented in a time bound manner, to mitigate the risk of errors in financial statements preparation. <i>(Paragraph 178)</i>	2024	CSI/CSF	FAO's Finance division prepared two BCRs to facilitate the automation of the financial statements of which the first was implemented in May 2023 and the second is in the stage of final user testing. Completion of both BCRs ensures the correct extraction of IPSAS compliant data from GRMS and correct preparation of the primary financial statements and "extended trial balances". Additional work will be required in a second stage to enable the automation of specific note disclosures presented with the financial Statements. Notes disclosures including, but not limited to, Employee Benefits, Financial Instruments, Pensions, and Related Parties will continue to rely on manual preparation or the provision of data from external sources such as Investment Custodians or External Actuaries.
Deficiencies in Vendor Registration data				
21.	FAO to initiate time-bound action to cleanse the Vendor database thereby ensuring	2023	CSL	The Shared Services Centre is committed to the accuracy and completeness of its vendor database and has taken several proactive steps to achieve this goal, including through:

Recommendation		Suggested Timeline	Responsible Unit	Management Response
	<p>accurate information, including flagging of UNGM unregistered vendors. FAO to review the Vendor creation data template (FAO Supplier Wizard) to designate essential fields as mandatory in order to enhance data quality.</p> <p><i>(Paragraph 184)</i></p>			<p>- Mass Upload of UNGM Numbers for existing suppliers: In June 2023, the SSC has initiated a project to upload UNGM numbers to GRMS with the project on track to be completed by the end of December 2023. Upon completion, the SSC plans to review the vendor's database to assess the progress achieved.</p> <p>- Requesting UNGM Numbers during Vendor Registration: Starting June 2023, during the new vendor registration process, vendors are required to add their UNGM number as part of the registration process.</p> <p>- Mandatory Fields in FAO Supplier Wizard: The UNGM number shall be considered as a mandatory field when new suppliers register in the "FAO Supplier Wizard" (threshold-based approach).</p> <p>- Existing vendors with a missing UNGM number are identified on a case-by-case basis for resolution.</p>
Non-availability of Procurement related documents in GRMS				
22.	<p>An integrated Procurement System to be planned for and implemented in a time-bound manner, so that existing known control weaknesses in the Procurement system are addressed. This would include integrating Procurement planning within the overall procurement process, as also the availability of complete procurement documentation for key sourcing processes.</p> <p><i>(Paragraph 197)</i></p>	2023	CSI/CSL	<p>Procurement modernization is one of the business workstreams identified in the FAO ERP roadmap. This includes the provision of an integrated system to manage the end-to-end procurement process and bridge current gaps where either manual efforts or disparate technologies are utilized. This includes key sourcing processes.</p>

Recommendation	Suggested Timeline	Responsible Unit	Management Response	
COMPLIANCE AUDIT FINDINGS				
Performance Securities and Advance Payments				
25.	Performance securities to be obtained in all cases as per applicable regulations to secure the financial interest of the organization during the contracted and maintenance/Defect Liability Period. <i>(Paragraph 216)</i>	2023	FLMEX	The compliance finding in FLMEX has been acknowledged and actions will be implemented by the office including through call documents clearly indicating all applicable conditions when suppliers must present bank guarantees.
26.	Controls to be established to ensure that grant of advance payments to vendors are made strictly as per FAO guidelines. <i>(Paragraph 216)</i>	2023	FLMEX	The compliance finding in FLMEX is acknowledged and actions will be implemented by the office through strengthening negotiations with suppliers to limit advance payments as well as preparation of an internal policy governing approval of advances.
Instances of Direct procurement				
27.	FAO Management to further encourage competitive public procurement and take steps to reduce the use of exceptional awards/direct procurement while strictly ensuring documentation requirements in GRMS. <i>(Paragraph 225)</i>	2023	CSL	<p>All formal solicitations are by default open/public. Exceptional awards are not a procurement method that is selected upfront but rather the result of a competitive process (when less than 3 responsive offers are obtained) and not within the control of FAO.</p> <p>With regards to direct procurement (DP), efforts will be made to address the incorrect recording of DP award basis by buyers (as seen in some of the samples selected by the external auditor) and remind buyers of the need to limit Direct Procurement to those circumstances foreseen in MS502 and other guidance notes (i.e Fast Track Procedures for Level 3 and Level 2 Emergency Responses).</p> <p>The Local/HQs Procurement Committee submission provides in a standardized manner all the necessary information for the Committee to endorse the procurement process and as such is considered the most relevant supporting documentation to be uploaded in</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
				GRMS prior to approval by the Procurement Authority. Buyers will be reminded of the need to upload that document.
28.	FAO to amend its Manual to specifically establish delegation of acceptable risk based procurement limits for Direct Procurement. <i>(Paragraph 225)</i>	2023	CSL	The recommendation is agreed and relevant amendments will be made to the Manual.
SIGNIFICANT				
Financial Audit				
Non-creation of liability in respect of Conditional Voluntary contribution				
3.	FAO to examine the voluntary contribution agreements, including the EU FAFA agreements, which impose performance obligations on the recipient and meet the criteria for recognizing the contributions under these agreements as conditional and account for as per its stated policy. <i>(Paragraph 69)</i>	2023	CSF	<p>Management reaffirms that voluntary contribution agreements entered into by FAO with resource partners, including those with the European Commission, do not contain any clauses that meet the definition of conditions as set out under IPSAS 23. Any change to revenue recognition in respect of such agreements would therefore incorrectly reflect the financial transactions undertaken by FAO, and consequently mis-state the Organization's Financial Statements.</p> <p>This review and assessment of the clauses conditions under contribution agreements has been consistent since the adoption of IPSAS in 2014 and Management confirms that there have been no changes in the nature of such agreements or their contractual stipulations that would require any changes to the accounting treatment.</p> <p>Management therefore maintains is assessment that voluntary funded contributions do not presently contain any conditions that warrant the derecognition of revenue and the recognition of liabilities for contributions received in advance.</p> <p>Management will however continue to review all voluntary funded contribution agreements to determine whether performance conditions, as defined in IPSAS 23, exist,</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
				to ensure that the ongoing recognition of these transactions remains in conformity with the applicable accounting standards.
Application of incorrect exchange rate				
4.	FAO to take measures to recognize its assets from the date of them being placed in service. <i>(Paragraph 75)</i>	2023	CSL	The SSC recognizes the importance of maintaining an up-to-date Asset Register for accurate asset management. In GRMS, the date of “placed in service” is the receipt date while the exchange rate applied is automatically populated according to the date when the invoice is entered in the system. The current fixed asset module is not capable of accounting for any exchange rate variance between the Invoice Date and the Receipt Date. Since this recommendation would require a re-configuration of the ERP, it shall be included as a requirement of the ERP transformation project.
MANAGEMENT MATTERS				
Performance Audit of Office of Emergencies and Resilience (OER)				
Monitoring and Evaluation of Emergency and Resilience projects				
7.	OER to actively track the status of MEAL capacities in terms of Human Resources and availability of Budget for these activities in Country Offices through the Country Annual Reports. Use of MEAL plans and outcomes should be utilized to monitor project effectiveness and to build a repository of evidence to inform decision making regarding effective programming. <i>(Paragraph 100)</i>	2024	OER	OER has developed specific questions that respond to this audit recommendation which have been included in the 2023 Country Annual Report format. OER will monitor the HR, budget, and application of recommended practices in priority scale-up countries.

Recommendation		Suggested Timeline	Responsible Unit	Management Response
Peer reviews under Emergency activation and response protocol				
12.	OER to prepare a roadmap and finalize the modalities and timelines for initiating the operational peer reviews of all the ongoing L3/protracted responses. <i>(Paragraph 131)</i>	2024	OER	OER implemented an operational peer review of all the Level 3 activations from March to July 2023. It included a review of the L3 Activation (focusing on the features set forth in DGB 2022/06) and a discussion regarding deactivation of the L3.
SIGNIFICANT				
COMPLIANCE AUDIT FINDINGS				
Gender Parity				
23.	A gender equality stocktaking exercise to be conducted at the earliest and to take appropriate measures for equitable gender representation in the FAO workforce. <i>(Paragraph 203)</i>	2024	CSH/ESP	<p>In line with the requirements of the Policy on Gender Equality 2020-30, which includes a minimum standard on gender stocktaking exercises, Centres, Divisions and Offices (decentralized and at headquarters) are annually reminded through corporate reporting mechanisms (Policy reporting and Country Annual Reporting) about their commitment to periodically carry out stocktaking exercises. Countries covered by the Report of the External Auditor for 2022 are planning to complete their exercise by the end of 2024.</p> <p>In line with The UN System wide Gender Parity Strategy, and FAO's overall objective to create an inclusive work environment, a specific output was included in the HR strategic action plan, i.e. output 1.3, "A work environment that is diverse and inclusive where employees feel valued, engaged and have a sense of belonging".</p> <p>As referenced in the Long form report, the UN System wide Gender Parity Strategy aims to achieve gender parity for Permanent/Continuing and Fixed-term appointments, in the Professional and higher categories. It balances accountability with incentives, recognizes different starting points and challenges, and provides positive tools to empower and encourage staff and managers alike. While the goal is 50/50 parity, it is recognized that sustainability at that number is unlikely and for the purposes of this strategy "parity" is considered to be within the 47 percent - 53 percent margin.</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
				<p>Accordingly, the KPI on gender parity is integrated in the FAO Strategic Plan and aims to achieve gender parity at professional level (P1-P5) by December 2022 and for senior positions (D1-DDG) by December 2024. As reported in the 2022 HR Annual report, as at 31 December 2022, the representation of women in FAO was 46 percent at the professional level (P1-P5) and 28 percent at the D1 and above level. In September 2023, the KPI was met for P1-P5 with 47 percent women at that level.</p> <p>Continued and appropriate measures to promote a diverse and inclusive workforce in line with the FAO strategic plan and the UN-SWAP 2.0 accountability framework on gender mainstreaming in the UN system are reported in the HR Annual report under the output 1.3, “A work environment that is diverse and inclusive where employees feel engaged, valued, and have a sense of belonging”.</p> <p>In 2022, the Organization’s work was highlighted by the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women) in the areas of gender-responsive performance management, the Employee Recognition Awards, and the achievements of the Women’s Committee.</p>
Asset Management				
24.	<p>Country Office asset registers to be regularly updated with all required information, and internal controls pertaining to collection of asset-related data, strengthened to ensure reliable and complete documentation.</p> <p><i>(Paragraph 208)</i></p>	2024	CSL/RLC/ FLCOL/ FRETH/ FNLEB/ FLMEX/ FNSDN/ FLVEN	<p>The SSC recognizes the importance of maintaining an up-to-date Asset Register and is currently engaged in improving asset-related data collection procedures to ensure complete information is gathered for Asset Management by 2024.</p> <p>To ensure a comprehensive monitoring framework for the Asset Register and to strengthen internal control, CSF in cooperation with the SSC Asset Management Team has developed and published in July 2023 the CSF Guideline “Implementing measures to monitor the Asset Register”. In addition, annual online refresher trainings are held for asset focal points to support capacity building and the correct application of FAO Asset Management policies and procedures.</p>

Recommendation		Suggested Timeline	Responsible Unit	Management Response
Cash Management				
29.	FAO to strengthen its internal controls related to surprise verification of cash counts. (Paragraph 228)	2024	CSF/RLC/ FLCOL/ FRETH/	A surprise count was conducted in early 2023 and found that this is not an effective method to control the cash balances since the majority of advances are paid to bank accounts and not held as cash. As an alternative, CSF monitors the latest status of Outposted Petty Cash and Petty Cash reconciliations instead of surprise cash counts, which serves as a better control mechanism.
Unmatched invoices				
30.	Internal Controls to be strengthened in a time bound manner to ensure that no ineligible unmatched procurements are allowed. (Paragraph 232)	2024	CSF/ FRETH	In addition to close monitoring of unmatched invoices, Management is revising Standard Operating Procedures on payments without matched invoices in preparation for the year-end closure.
Travel Management				
31.	Travel claims to be regularly reviewed, and action taken to clear outstanding advances, in line with FAO rules. (Paragraph 236)	2024	FLCOL/ FRETH/ FLMEX	The compliance findings are acknowledged and will be addressed through strengthened monitoring arrangements at offices and communications emphasizing the importance of compliance with FAO rules.
MERITS ATTENTION				
MANAGEMENT MATTERS				
Performance Audit of Office of Emergencies and Resilience (OER)				
6.	OER to consider making use of Country Crisis Risk Profile and Emergency Response Preparedness sections of the CAR to regularly assess the emergency preparedness status	2024	OER	OER has reviewed the <i>Country Crisis Risk Profile</i> and <i>Emergency Response Preparedness (ERP)</i> sections of the Country Annual Report and has prepared a table, ranked by the level of risk, of Country Offices that assess themselves as inadequately prepared for emergencies. This analysis is being used to inform ongoing or upcoming efforts to increase the level of emergency response preparedness of key priority countries as well as coordinate

Recommendation	Suggested Timeline	Responsible Unit	Management Response
<p>of the Country Offices with a view to taking informed decisions and provide proactive support to Country Offices that assess themselves as inadequately prepared to address disaster risk.</p> <p><i>(Paragraph 94)</i></p>			<p>support with Regional Offices and Subregional Offices to Country Offices that are not covered by emergency initiatives but assess themselves as inadequately prepared to respond to emergencies. This approach ensures a focused effort on key priority countries while still addressing the needs of others through regional and subregional coordination.</p>