



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## CONFERENCE

**Thirty-third Session**

**Rome, 19 – 26 November 2005**

**Audited Accounts – FAO 2002-2003 - Part B  
Report of the External Auditor**

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| <p><b>REPORT OF THE EXTERNAL AUDITOR<br/>ON THE FINANCIAL STATEMENTS OF<br/>THE FOOD AND AGRICULTURE ORGANIZATION<br/>OF THE UNITED NATIONS<br/>FOR THE FINANCIAL PERIOD 1 JANUARY 2002 TO 31 DECEMBER 2003</b></p> |
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***CONTENTS***

|   | <u><i>Paragraphs</i></u> |
|---|--------------------------|
| <b>GENERAL</b>  |                          |
| <b>Introduction</b>                                   | 1-6                      |
| <b>Audit of Financial Statements</b>                  | 7-10                     |
| <b>Previous recommendations</b>                       | 11                       |
| <b>SUMMARY OF RECOMMENDATIONS</b>                     |                          |
| <b>FINANCIAL MATTERS</b>                              |                          |
| <b>Financial Position of the Organization</b>         | 12-21                    |
| <b>Post Trial Balance Adjustments</b>                 | 22-26                    |
| <b>Cash and Bank deposits</b>                         | 27-31                    |
| <b>Accounts Receivable and Payable</b>                | 32-39                    |
| <b>Corporate Accounting Manual</b>                    | 40-42                    |
| <b>MANAGEMENT MATTERS</b>                             |                          |
| <b>Budgetary Process of Regular Programme of Work</b> | 43-91                    |
| <b>Technical Co-operation Programme</b>               | 92-154                   |
| <b>Procurement Functions by AFSP in Headquarters</b>  | 155-192                  |
| <b>Audit of Decentralized Units</b>                   | 193-211                  |
| <b>OTHER MATTERS</b>                                  |                          |
| <b>Write-offs</b>                                     | 212-214                  |
| <b>Cases of Fraud or Presumptive Fraud</b>            | 215-221                  |
| <b>Measures for Fraud Prevention</b>                  | 222                      |
| <b>Acknowledgements</b>                               | 223-224                  |

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PART I

**GENERAL**

**Introduction**

1. The present report is being submitted on the results of the audit of the Food and Agriculture Organization (FAO) of the United Nations for the biennium 2002-2003. The scope of the audit was decided in compliance with Financial Regulations 12.1 to 12.10 of the Organization and the additional Terms of Reference governing External Audit appended thereto.
2. The present report, which is written in English, includes my observations on the Financial Statements of the Organization for the period 2002-2003 which are reported in Part I of this Report.
3. Management reviews of the working of the Organization, in respect of Budgetary Process of Regular Programme of Work, Technical Cooperation Programme and Procurement of goods and materials by the Procurement Service (AFSP) in Headquarters of the Organization were carried out during the biennium.
4. In addition, four Regional Offices (RO) and eight FAO Representations (FAOR) were visited by audit. These audits covered regularity of financial transactions and management matters relating to decentralization and project management. My observations on the Management reviews and the decentralized units are reported in Part II of this report.
5. My observations on losses written off and cases of fraud or presumptive fraud during the biennium are included in Part III of this report.
6. The present report also contains my recommendations arising from my observations. Following past practice, I have categorized these recommendations as Fundamental, Significant and Meriting attention.<sup>1</sup>

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<sup>1</sup> The priority of the recommendations are classified as follows:

**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.

## **Audit of Financial Statements**

7. The audit of financial statements was carried out in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and conforming to International Standards on Auditing. These standards require that the audit be planned and carried out to obtain reasonable assurance that the financial statements are free from material misstatements. The Director General is responsible for preparing these financial statements and I am responsible for expressing an opinion on them.

8. The audit included an examination, on a test basis and as considered by me to be necessary in the circumstances, of evidence supporting the amounts and disclosures in the financial statements. It also included assessing the accounting principles used and significant estimates made by the Director General, as well as evaluating the overall presentation of the financial statements.

9. In addition, I was requested to perform audit of the following separate financial statements for the programmes implemented in cooperation with or on behalf of other Organizations, namely:

- FAO/UN Population Fund (UNFPA) Biennium Status of Funds and Schedule 1- Biennial Expenditure Statement as at 31 December 2003;
- FAO/UN Development Programme (UNDP) Status of Funds and Schedule 1- Schedule of Expenditure on Projects executed by FAO, as at 31 December 2003.

10. The audit enabled me to issue an unqualified audit opinion on the financial statements of the Food and Agriculture Organization of the United Nations for the biennium 2002-2003.

## **Previous recommendations**

11. I have not separately included comments on actions taken on the previous recommendations except when the context demands so. This is in view of the fact that the Finance Committee has already developed a mechanism of following up on all previous recommendations in every session. Verification by the external audit of the action taken is also reported to the Finance Committee through this mechanism.

## **SUMMARY OF RECOMMENDATIONS**

### **Financial Matters**

|   |   | Priority    | Timeline  |
|---|---|-------------|-----------|
| 1 | I recommend that the Organization should continue and where possible, intensify existing efforts in collection of outstanding assessments of the Member Nations with the Governments of the Member Nations for payment of arrears of assessment and timely payment of current assessments. (Paragraph 21) | Fundamental | 2004-2005 |

|   |   | Priority            | Timeline                             |
|---|---|---------------------|--------------------------------------|
| 2 | I recommend that the Organization should assess the possibilities of reducing post trial balance adjustments and, in the event of these adjustments becoming unavoidable, ensure that such adjustments are supported with a formal sign-off procedure. (Paragraph 26) | Significant         | Before closure of 2004-2005 accounts |
| 3 | I recommend that the Organization should continue their efforts in bank reconciliation and settle the old unreconciled items in a time bound manner. (Paragraph 30)   | Merits<br>Attention | Before closure of 2004-2005 accounts |
| 4 | I recommend that the Organization should take time bound steps to urgently adjust outstanding travel advances paid to consultants. Particular attention needs to be paid to the consultants, contracts with whom have expired. (Paragraph 35)                         | Significant         | Before closure of 2004-2005 accounts |
| 5 | I recommend that the Organization should work out a cost effective mechanism to monitor the clearing accounts under Accounts Receivable and Payable and adjust the outstanding items. (Paragraph 39)  | Merits<br>Attention | Before closure of 2004-2005 accounts |
| 6 | I recommend that the Organization should finalize the corporate accounting manual on priority as significant changes have taken place in the accounting systems and procedures due to introduction of new automated systems for many processes. (Paragraph 42)        | Merits<br>Attention | 2004-2005                            |

### **Budgetary Process of Regular Programme of Work**

|    |   |                     |           |
|----|---|---------------------|-----------|
| 7  | I recommend that the Organization should develop and disseminate clearer criteria for identifying contributions of Programme Entities to Strategic Objectives and for measurement of the extent of such contribution. I also recommend that a suitable mechanism should be established to identify the shifts in linkages between the Programme Entities and Strategic Objectives. (Paragraph 57)   | Merits<br>Attention | 2004-2005 |
| 8  | I recommend that the Organization should seek further guidance from the Governing Bodies on the ways and means of synchronizing the different resource assumptions in the preparations of Medium Term Plan and Summary Programme of Work and Budget to strengthen the Results Based Budgeting process. (Paragraph 65)   | Significant         | 2004-2005 |
| 9  | I recommend that the Organization should improve the effectiveness of the Medium Term Plan as a planning tool by reducing, as far as possible, the extent of unprogrammed resources for the last biennium. (Paragraph 69)   | Significant         | 2004-2005 |
| 10 | I recommend that the Organization should establish a road map to accomplish the task of formulating consistent, realistic and verifiable target values for each indicator at the level of Major Outputs for all Programme Entities. Formulation of such indicators would require enhanced skills of staff in the technical departments and the Office of Programme, Budget and Evaluation should play a catalytic role in this regard. (Paragraph 73) | Merits<br>Attention | 2004-2005 |
| 11 | While the budget monitoring is generally satisfactory, I recommend that technical departments should include the estimated date of completion of biennial outputs and the expected percentage of their achievements in the Annual Work Plans to facilitate more effective monitoring of physical progress. (Paragraph 78)   | Merits<br>Attention | 2004-2005 |

|    |   | Priority            | Timeline  |
|----|---|---------------------|-----------|
| 12 | I recommend that efforts should be intensified to implement all the modules within the planned dates. I also recommend that periodical feedback should continue to be taken from the user community to determine their training requirements. (Paragraph 87).               | Merits<br>Attention | 2004-2005 |
| 13 | I recommend that to improve the quality and reliability of the figures of the Programme Resources by regions, the Organization should ensure that all departments follow uniform methodology as laid down by the Office of Programme, Budget and Evaluation. (Paragraph 91) | Merits<br>Attention | 2004-2005 |

### Technical Co-operation Programme

|    |  |                     |           |
|----|--|---------------------|-----------|
| 14 | I recommend that in view of the persistent low disbursement in the past resulting in huge carried over appropriations, the Organization should take steps to increase disbursement substantially. I also recommend that the delivery in individual projects should be closely monitored in the Headquarters. (Paragraph 99)  | Fundamental         | 2004-2005 |
| 15 | I recommend that the Organization should bring the actual practice of the "return flow" process including the latest changes of this process to the notice of the Governing Bodies. I further recommend that the accounting and reporting procedures of the "return flow" process should be reviewed and codified. The monitoring mechanisms should be reoriented to adhere to these procedures. (Paragraph 106) | Fundamental         | May 2005  |
| 16 | I recommend that the Organization should sustain the improvements obtained to date and introduce further measures to reduce the time taken for approving the non-emergency and emergency projects. (Paragraph 112)   | Merits<br>Attention | 2004-2005 |
| 17 | I recommend that sustained measures should be taken to improve in-country project appraisal to reduce the number of cancelled projects. The Organization also should disseminate information about Technical Cooperation Programme criteria among the governments of the Member Nations to enable better formulation of TCP projects. (Paragraph 115)  | Merits<br>Attention | 2004-2005 |
| 18 | I recommend that the Organization should take concrete steps to reduce delay in project implementation in Europe region by strengthening the capacity of the National Project Coordinators. It should identify the common factors for delay and take action to ameliorate them. (Paragraph 123)  | Significant         | 2004-2005 |
| 19 | I recommend that procurement procedures should be improved to ensure that inputs like seeds and fertilizers are available for the emergency projects at the time when these are needed. (Paragraph 129)  | Significant         | Immediate |
| 20 | I also recommend that lessons learnt and ways to meet the critical risks in various emergency projects should be documented from time to time for use by various concerned agencies and for strengthening institutional memory. (Paragraph 130)  | Merits<br>attention | 2004-2005 |

|    |  | Priority            | Timeline  |
|----|--|---------------------|-----------|
| 21 | I recommend that the Organization should take concrete steps to substantially enhance capacity in project management in all aspects by the field units. The administrative support and operational guidance to be provided by the Regional Offices and Headquarters to the field offices being a key aspect of decentralized operations should be monitored closely to avoid slip up in project implementations. (Paragraph 138) | Significant         | 2004-2005 |
| 22 | I also recommend that the Organization should take all possible steps- in particular train the staff- to optimize the benefit of Information Technology resources available in the Regional and Country offices. (Paragraph 139)   | Merits<br>Attention | 2004-2005 |
| 23 | I recommend that the Organization should closely monitor the closure of projects and develop suitable reports for this purpose. (Paragraph 142)  | Merits<br>Attention | 2004-2005 |
| 24 | I recommend that the review of the Technical Support Service claim system be completed as a priority and that the resulting modified procedures be implemented as early as possible. (Paragraph 146)   | Merits<br>Attention | 2004-2005 |
| 25 | I recommend that the Organization should ensure effective use of evaluation findings in management of Technical Cooperation Programme projects in a time bound manner. (Paragraph 150)   | Merits<br>Attention | 2004-2005 |
| 26 | I recommend that the Organization should enhance the reporting in the Annual Report on Budgetary Performance and Programme Implementation Report to facilitate review and monitoring of the Technical Cooperation Programme by the Governing Bodies. (Paragraph 154)   | Merits<br>Attention | 2004-2005 |

### **Procurement Functions by AFSP in Headquarters**

|    |  |             |           |
|----|--|-------------|-----------|
| 27 | I recommend that the Procurement Service (AFSP) should develop a formal procedure to review timeliness in supply of commodities where seasonality is involved to ensure that delivery is made by the date by which the supply is required. The inter departmental working group which is proposed to be set up should look into this aspect in particular. (Paragraph 162) | Significant | Immediate |
| 28 | I recommend that the Organization should document the practice of distribution of goods to final beneficiaries after receipt of inspection reports and should review other inspection practices urgently. Any revision should be implemented in a time-bound manner. (Paragraph 167)   | Significant | 2004-2005 |
| 29 | I recommend that the Organization should standardize provisions of penalty and maintain in the purchasing files the calculations and authorization details. Exceptions in specific situations should have the approval of a designated authority and supported by recorded reasons. (Paragraph 170)  | Significant | 2004-2005 |
| 30 | Proper maintenance of procurement records being of critical importance, I recommend that the Organization should formalize and implement, on priority, procedures relating to maintenance of procurement records. (Paragraph 173)  | Fundamental | 2004-2005 |

|    |   | Priority            | Timetable |
|----|---|---------------------|-----------|
| 31 | I recommend that suitable internal reporting arrangements should be implemented for effective monitoring of progress of purchase cases. Information Technology support to procurement service should be enhanced on a priority basis to improve monitoring. (Paragraph 177) | Merits<br>Attention | 2004-2005 |
| 32 | I recommend that purchase cases with less than three bids meeting specifications of the tender should be submitted to the Procurement Committee, in accordance with the financial limits set out in the Manual. (Paragraph 179)   | Merits<br>Attention | 2004-2005 |
| 33 | I recommend that the Organization should consider the feasibility of developing technical expertise within the procurement division and rotation of personnel in the division as a potential tool to further enhance internal control. (Paragraph 182)                      | Merits<br>Attention | 2004-2005 |
| 34 | I recommend that the risk assessment in procurement functions should be completed in a time bound manner and the review of the provisions of the Manual and the levels of delegation of authority should be finalized and implemented at the earliest. (Paragraph 190)      | Fundamental         | Immediate |

#### **Audit of Decentralized Units**

|    |  |                     |           |
|----|--|---------------------|-----------|
| 35 | I recommend that the Organization should take concrete steps to improve the project and programme management capacity of the FAO country offices. The utilization of the training budget by FAO Representations should be closely monitored. (Paragraph 198)     | Significant         | 2004-2005 |
| 36 | I recommend that the Organization should closely monitor compliance with the rules of the Organization regarding procurement procedures by Regional offices and FAO Representations. (Paragraph 205)   | Merits<br>Attention | 2004-2005 |
| 37 | I recommend that the intended revision of the Food and Agriculture Organization's Manual be carried out as early as possible so that issues relating to longer-term employment of locally recruited professionals can be clear to all concerned. (Paragraph 208) | Merits<br>Attention | 2004-2005 |
| 38 | I recommend a standard check list for review of the local audit report in Headquarters should be developed. The impact of the local audit scheme on the internal controls of the country offices should be evaluated periodically. (Paragraph 211)               | Merits<br>Attention | 2004-2005 |

## FINANCIAL MATTERS

### Financial position of the Organization

12. At the end of the biennium 2002-2003, the Organization had a net excess of income over expenditure of US\$ 19.8 million (General and Related Funds: US\$ 13.4 million and Trust and UNDP Funds: US\$ 6.4 million). This was in contrast to the shortfall of US\$ 30.2 million at the end of the previous biennium. The excess was primarily due to decrease in provision for delays of contributions (US\$ 64.6 million) and gain on exchange difference (US\$ 51.3 million) on account of forward contract rate entered into at the beginning of the biennium. Transfers to Working Capital Fund (US\$ 8.4 million), Special Reserve Account (US\$ 16.5 million) and change in accounting policy (US\$ 3.2 million), however, increased the end of the period deficit to US\$ 90.4 million (General Fund US\$ 90.1 million and Trust Fund US\$ 0.3 million) from US\$ 75.4 million as at the end of the previous biennium.

13. The position of Working Capital Fund improved compared to that in the previous biennium due to reimbursement of US\$ 8.4 million to the Fund from arrears of contributions. Against an authorized level of US\$ 25.4 million as at 31 December 2003, the balance in this Fund stood at US\$ 25.2 million on that date. The balance in the Special Reserve Account also improved significantly due to gain on exchange difference. Against an authorized level of US\$ 32.6 million, the balance as at 31 December 2003 stood at US\$ 23.0 million. The balance as at 31 December 2001 was only US\$ 0.5 million.

14. The Organization's assets stood at US\$ 708.7 million representing an increase of 10.7 per cent over the assets at the end of the previous biennium. Cash and Term Deposits constituted 29 per cent and Receivables 6 per cent of the assets. During the biennium, the Organization converted cash and deposits into a portfolio of short-term bonds and other liquid assets. The cost and market value of short-term investments as at 31 December 2003 amounted to US\$ 292.1 million and US\$ 291.7 million, resulting in an unrealized loss of US\$ 0.4 million. As at 31 December 2003, Cash and Term Deposits and Short-term Investments stood at US\$ 494.7 million, representing an increase of 46 per cent over the previous biennium. Trust and UNDP Funds accounted for 80 per cent of total Cash and Term Deposits and Short-term Investments.

15. The liabilities of the Organization stood at US\$ 750.9 million on 31 December 2003 representing 7 per cent increase over the liabilities at the end of the previous biennium. Contributions of US\$ 352.1 million received in advance for Trust and UNDP Funds constituted 47 per cent of the liabilities. Liabilities on the staff related schemes were recorded at US\$ 182.2 million, representing 24 per cent of the liabilities.

16. In accordance with the actuarial valuation of 31 December 2003, the total liability on staff related schemes was US\$ 432.8 million - an increase of 45.9 per cent over the previous valuation as at 31 December 2001. The Organization informed that most of the increase was due to a valuation methodology using actual numbers of FAO staff and retirees, unlike the previous calculations based on aggregate numbers for all Rome-based UN agencies. Long term investments earmarked to fund this liability were US\$ 160.6 million, with a market value of US\$ 185.5 million.

17. While the overall position of payment of arrears of contributions has improved, timely receipt of contributions and payment of arrears of contributions continue to be areas of concern. In several months in the biennium, the availability of cash under General Fund reached precariously low levels.

18. I anticipate that unless there is considerable improvement in collection of assessment and arrears, flexibility in cash management will be affected in biennium 2004-2005 due to accelerated disbursements of TCP Funds.

19. The Finance Committee noted in May 2004 that timely receipt of assessed contributions and payment of all arrears would restore the Organization's overall equity position. Governing Bodies have a crucial role to play in strengthening and complementing the efforts of the Organization both in timely inflow of contributions and reducing the level of arrears.

20. During the biennium, the Organization introduced certain fresh measures regarding reporting and follow-up with Member Nations in relation to outstanding Regular Programme Assessments.

**21. I recommend that the Organization should continue and where possible, intensify existing efforts in collection of outstanding assessments with the Governments of the Member Nations for payment of arrears of assessment and timely payment of current assessments.**

#### **Post Trial Balance Adjustments**

22. The External Auditor in his report on the financial statements for the biennium 2001-2002 referred to the fact of manually adjusting the Trial Balance in order to produce the Financial Statements. He recommended that the chart of accounts in the Oracle Financials as implemented in the Organization should be critically reviewed to identify possibilities of reducing manual adjustments. The Organization reported that the recommendation has been implemented.

23. Several reclassification adjustments on the trial balance generated by computers were carried out in the financial statements for the biennium 2002-2003. A manual off-book adjustment of US\$ 5.18 million was also noticed to have been carried out to arrive at the figures for income and expenditure in the financial statements. The adjustment was required to adjust the Direct Operating Cost in respect of Technical Cooperation Programme and Special Programme for Food Security.

24. While I recognize that to prepare the financial statements, such reclassifications and adjustments may be necessary in certain circumstances, formal procedures need to be followed while carrying these out. The FAO Manual stipulates that journal vouchers are to be approved by the Assistant Director General (ADG) or the Director, Finance Division, or the staff member designated by the Director, Finance Division. It was noticed during audit that, in practice, such a formal sign off procedure has not been followed in case of these reclassifications and adjustments.

25. The Organization confirmed that substance of important reclassification and manual adjustments was approved at the level of Director and was documented, though actual sign off of the journals was not the practice. It also stated that the current accounting structure was being reviewed and it expected to make proposals for changes in future. It further assured that it would continue to review and streamline the chart of accounts.

**26. I recommend that the Organization should assess the possibilities of reducing post trial balance adjustments and, in the event of these adjustments becoming unavoidable, ensure that such adjustments are supported with a formal sign-off procedure.**

### **Cash and Bank deposits**

27. Timely reconciliation of balances in bank accounts with the ledger balances is an important instrument of control over the cash transactions. This is particularly important as the Organization has 32 bank accounts in Headquarters alone. Examination in audit indicated that the reconciliation process in Headquarters has improved. Improvements were also noticed in settling the unreconciled items arising till 2002.

28. The Organization also operates 60 bank accounts, which are commonly known as Zero Balance Bank Accounts. These accounts enable the FAO Representations to replenish their local accounts and have monthly drawal limits. Due to differences in time, such accounts might show a balance in the books of the Organization, which should be cleared on the following day or as early as possible. However, several old and large items are persisting in these accounts from the legacy system (FINSYS), which are yet to be settled.

29. In case of 11 bank accounts which stand closed, balances continue to be shown in the accounts. The Organization should investigate and reconcile these items on priority instead of showing such amounts under Cash and Bank Balance.

**30. I recommend that the Organization should continue their efforts in bank reconciliation and settle the old unreconciled items in a time bound manner.**

31. Due to the interface of Oracle in Headquarters with Atlas and the Field Accounting System (FAS), a dummy bank account is temporarily operated to cover travel advances to be paid by the field offices to the staff of Headquarters. When payment is actually made by the concerned Field office, the dummy account is cleared by booking the amount against the appropriate cash account. Essentially, booking in the dummy account is a non-cash transaction and is operated merely to complete the accounting cycle of the transaction. However, in the chart of accounts, it is grouped under the line item, "Cash and Bank Balance". During audit, a credit balance of US\$ 1.1 million under this account was noticed. To that extent, therefore, the Cash and Bank Balance stands understated. The Organization agreed to correct the grouping in future by correcting the classification in the chart of accounts.

### **Accounts Receivable and Payable**

32. As at 31 December 2003, an amount of US\$ 44.0 million has been shown as receivable. Of this amount, approximately US\$ 3.9 million related to consultants' travel and an analysis of the data in audit indicated evidence of lack of timely adjustments of travel advances to the consultants following completion of travel. There were cases in which the contracts with the consultants had expired and therefore adjustments of items in such cases are uncertain.

33. During an earlier audit in December 2002, an amount of US\$ 0.6 million relating to staff advances was seen as outstanding in 1997 in the erstwhile FINSYS system and it continued as such till the time of the last audit.

34. The Organization confirmed that an initiative to review and where applicable, to recover outstanding advances from consultants has been planned and is scheduled to take place during the coming months. The Organization has also confirmed that as is already the case for staff members, statements will be issued to consultants on a periodic basis providing information to all open transactions related to them.

**35. I recommend that the Organization should take time bound steps to urgently adjust outstanding travel advances paid to consultants. Particular attention needs to be paid to the consultants, contracts with whom have expired.**

36. With the introduction of Oracle Financial Accounts, certain suspense or clearing accounts under Accounts Receivable and Payable were introduced. These accounts were necessitated by the various interfaces between Oracle Financials and other systems. As is stated in the Accounting Reference Manual, the end of year balance in these clearing accounts should be zero. In other words, the items in these accounts as at 31 December of any biennium should be resolved to the final head of account to which they belong before preparing the financial statements.

37. Three such clearing accounts under Accounts Receivable and nine clearing accounts under Accounts Payable were analyzed on the basis of data in the Oracle Financials modules. All these accounts had outstanding balances and some of these items pertained to as early as 1999. Clearance of these old items has been slow and in some cases, no clearance has been recorded.

38. The latest initiative to expand the implementation of Oracle to other areas like HR will reduce the need for such interfaces. The Organization should take steps to clear these old items, as these, on the one hand affect the purity of data for the present and on the other, create a legacy of impure data, which would have to be carried forward.

**39. I recommend that the Organization should work out a cost effective mechanism to monitor the clearing accounts under Accounts Receivable and Payable and adjust the outstanding items.**

### **Corporate Accounting Manual**

40. The Organization does not have an up-to-date corporate accounting manual. In its absence, a comprehensive set of policies and procedures is not available in one place.

41. The Organization informed that a detailed plan for the preparation of corporate accounting manual including update of relevant manual sections and procedural guidance had been planned along with proposed schedule. It further informed that the difficulty to date was to dedicate resources to this activity, which competes for prioritization with other high priority activities.

**42. I recommend that the Organization should finalize the corporate accounting manual on priority as significant changes have taken place in the accounting systems and procedures due to introduction of new automated systems for many processes.**

## **PART II**

### **MANAGEMENT MATTERS**

#### **BUDGETARY PROCESS OF REGULAR PROGRAMME OF WORK**

43. The budgetary process in the Organization relating to the Regular Programme of Work was examined in the context of result-based budgeting under the new programme model. The examination covered the budgetary cycles of 2002-2003 and 2004-2005.

#### **The new Programme Budget Framework**

44. Budgetary process of FAO is governed by the provisions of the Financial Regulations of the Organization. Detailed procedures for preparation and monitoring of the budget are laid down in FAO Manual and Administration and Finance (AFF) Manuals. Instructions are also issued from time to time by the Office of Programme, Budget and Evaluation (PBE) supported by detailed procedures and guidelines incorporated in the Programme Planning, Implementation, Reporting and Evaluation Support system (PIRES).

45. The Strategic Framework for FAO 2000-2015 approved by the Conference in November 1999 is the foundation of the results-based programme-budget process in FAO. It adopted five corporate strategies to address the Members' needs with twelve strategic objectives and six strategies to address cross-organizational issues.

46. The Framework with a 10-15 years' horizon is operationalized through the rolling six-year Medium Term Plan (MTP), which is reviewed and revised every two years. By establishing programme priorities and projecting resource requirements over the six year period, MTP provides the link between the strategic objectives in the Strategic Framework and Director General's Programme of Work and Budget (PWB) for a biennium. PWB elaborates on the substance of MTP by defining biennial outputs and detailed resource requirements.

47. The implementation programme for the Strategic Framework includes the "New Programming Model" which is a results-based approach to programme planning and budgeting. In this model, both MTP and PWB articulate their proposals under substantive programmes in terms of constituent Programme Entities such as Technical Projects (TP), Continuing Programme Activities (CP) and Technical Service Agreements (TS).

48. The Director-General submits the Summary PWB to the Council through the Programme and Finance Committees and based on their recommendations, the PWB is prepared for approval of the Conference. The approved PWB is the basis for detailed work plans, which are prepared by technical divisions and decentralized offices. The Office of Programme, Budget and Evaluation (PBE) is the coordinating office for programme and budget formulation, monitoring and evaluation. The Technical Departments/Divisions monitor budgetary progress in implementation of Programmes through the web-enabled eBMM on a monthly basis and furnish to PBE Periodic Budget Reports as scheduled. The Finance Committee reviews budgetary performance on an annual basis.

49. Based on the review, I am of the opinion that the budgetary processes in the Organization have made important progress in implementation of result-based budgeting principles and comply with Organization's regulations relating to budget formulation, approval and monitoring. I also notice that the processes of preparation of draft budget and monthly progress reports conform to OECD best practice. However, the review indicated areas, which need attention and correction.

### **Strategic focus in budgetary process**

50. Programme Entities are the building blocks of the Organization's substantive work over medium term. When these are developed, one of the key criteria is that they conform to the mandate of the Organization and are of relevance to the Strategic Objectives.

51. Guidelines for quantifying contributions to Strategic Objectives by Programme Entities emphasized that a Programme Entity should contribute substantially to Strategic Objectives and relationships between a Programme Entity and the Strategic Objectives should be kept to the minimum. Contributions by a Programme Entity to Strategic Objectives are identified and measured in MTP through Major Outputs.

52. The linkage achieved between Major Outputs and Strategic Objectives was examined against these guidelines on the basis of data available in PIREs (Programme Planning, Implementation, Reporting and Evaluation Support System). It was noticed that out of 654 Major outputs identified in MTP 2004-2009, 593 contributed to three or less Strategic Objectives satisfying the conditions in the guidelines.

53. However, it was noticed that the consistency between the MTP and PWB in the identification of Strategic Objectives to which a Programme Entity was to contribute is yet to be fully achieved. An analysis of 24 Programme Entities under a sample of four Programmes indicated that in 66 per cent of these Programme Entities, the relevant Strategic Objectives did not match in the MTP (2004-2009) and PWB (2004-2005). The percentage of contributions to multiple strategic objectives for a given Programme Entity as reflected in the MTP and PWB did not match in 80 per cent of the sampled Programme Entities.

54. In the same sample, comparison of the list of Strategic Objectives to which a Programme Entity was contributing in the PWB 2004-2005 with the corresponding list for the biennial outputs of the same Programme Entity indicated that there was no agreement in respect of 25 per cent of the Programme Entities.

55. Such mismatch arose primarily from the fact that where the Programme Entity clearly related to a single Strategic Objective, resource allocation could be calculated objectively. However, where they contributed to multiple objectives, the process of percentage allocation of the Programme Entities across Strategic Objectives was largely subjective. While the methodology of allocating resources of one Programme Entity to multiple Strategic Objectives is sound, implementation of the methodology across various divisions and sections requires clear criteria for identifying Strategic Objectives to be served by a Programme Entity. Similarly, an improved basis should be established to determine percentile contribution of a Programme Entity where more than one Strategic Objective is involved. This will facilitate measuring achievements which is a key element in Results Based Budgeting.

56. The Organization informed that analysis to be carried out during preparations for MTP (2006-2011) will include clear criteria for identifying and measuring linkages and contributions of Programme Entities to Strategic Objectives. It further assured that PIREs will facilitate review of cases where linkages are modified between preparation of MTP and the Programme of Work and Budget.

**57. I recommend that the Organization should develop and disseminate clearer criteria for identifying contributions of Programme Entities to Strategic Objectives and for measurement of the extent of such contribution. I also recommend that a suitable mechanism should be established to identify the shifts in linkages between the Programme Entities and Strategic Objectives.**

### **Implementation of Result-Based Budgeting**

58. The new Programme model used in the Organization is based on the principles of result-based budgeting in which programme formulation revolves around a set of pre-defined objectives and expected results. In results-based budgeting, resource levels represent the optimal mix of what is required to accomplish the desired results. The growth rates of required resources both in MTP and PWB should thus be ideally driven by expected results and outputs.

59. The growth rates for projection of resources adopted in MTP (2002-2007) and MTP (2004-2009) were 15 per cent and 14.9 per cent. The rationale of these growth rates for MTP 2002-2007 and 2004-2009 respectively was restoration of budget levels to a level that would have been possible had 'zero real growth' rate been approved by Member Nations from biennium 1994-1995.

60. I recognize that adoption of a growth rate is necessary in the existing circumstances. However, the technical departments are allowed to formulate their plans without any rigid constraint of growth rate. While they formulate their resource requirements on the basis of results expected to be achieved, the resource levels projected in MTPs for the same results are determined by the growth rate. This weakens the link between the detailed bottom up examination in the technical departments of requirement of resources to meet the desired objectives and determination of growth rates.

61. It was also noticed that the growth rate in PWB differs substantially from the assumption of growth rate in MTP, thus further weakening the validity of MTP as an effective tool for results based budgeting.

62. MTP 2002-2007 adopted 9.6 per cent as the rate of growth for the first biennium 2002-2003. However, a growth rate of 5.4 per cent was adopted when Summary PWB 2002-2003 was formulated. Likewise, MTP 2004-2009 adopted 8.4 per cent as the growth rate for biennium 2004-2005, which was reduced to a lower rate of 5.5 per cent when formulating the Summary PWB 2004-2005.

63. The rationale for reduction of the growth rate was to limit the burden of increased assessments on Member Nations while seeking to fund priorities at appropriate if not optimal levels. It is appreciated that the willingness of Member Nations is a necessary criterion in selection of growth rates. However, different projection of resource requirements at different levels and different points of time in this planning process affect the results based budgeting process that the Organization has undertaken.

64. The Organization accepted that result-based budgeting principles indeed imply that resources should match expected results of a given project or programme. It further accepted that adoption of identical growth rate in MTP and PWB is a desirable approach.

65. **I recommend that the Organization should seek further guidance from the Governing Bodies on the ways and means of synchronizing the different resource assumptions in the preparation of Medium Term Plan and Summary Programme of Work and Budget to strengthen the Results Based Budgeting process.**

### **Unprogrammed Resources**

66. MTP is prepared with a horizon of six years with the resource projections for each of the biennia covered by it. These projections are presented in respect of all Major Programmes and the Programme Entities under them. MTP 2004-2009 projected significant unprogrammed resources for the last biennium of MTP. For Budgetary Chapters 2 and 3.1 for the last biennium (2008-2009) in MTP (2004-2009), the unprogrammed resources represented 24.4 per cent of the total amount projected. The unprogrammed resources mainly related to Technical projects in these chapters.

67. This results from the fact that Programme Entities relating to Technical Projects have a finite timeframe of up to six years and their reprogramming is dependent on auto-evaluations to be conducted in future. While preparing MTP for consideration of the Governing Bodies, the Organization does not publish new Technical Projects for the last biennium on the grounds that this would prejudice the outcome of the future auto-evaluations.

68. Thus resource projections in MTP for the last biennium become unclear and this affects its utility as an effective planning tool in this regard. Considering the indicative and non-binding nature of resource projections in the Plan, appropriations less than the projected resources would tend to impact more the Technical Projects than other Programme Entities such as Continuing Projects.

69. **I recommend that the Organization should improve the effectiveness of the Medium Term Plan as a planning tool by reducing, as far as possible, the extent of unprogrammed resources for the last biennium.**

### **Formulation of Indicators**

70. Effectiveness of Results-based Budget is related to clear formulation of expected results. The results and their indicators should be specific, measurable, attainable, realistic and time-based. The new Programme Budget model of the Organization intends to achieve this through the mechanism of detailing objectives, indicators and target values for each Programme Entity and then again, detailing indicators, Target values and Target years for each Major Output under the Programme Entities.

71. Several cases of weak formulation of indicators at the level of expected outcome were noticed during audit. For example, under Major Programme 2.1.1, no target values were set for any of the indicators relating to eight Programme Entities. Of 32 Major Outputs under these Programme Entities and 113 indicators for these major outputs, target values were provided in respect of only 10 indicators. Although the indicators for outcomes of Programme Entities were modified during formulation of MTP 2004-2009, corresponding changes in the indicators of the outcomes of major outputs of the concerned Programme Entity were not carried out.

72. The Organization accepted the need for improvement of indicators.

73. **I recommend that the Organization should establish a road map to accomplish the task of formulating consistent, realistic and verifiable target values for each indicator at the level of Major Outputs for all Programme Entities. Formulation of such indicators would require enhanced skills of staff in the technical departments and the Office of Programme, Budget and Evaluation should play a catalytic role in this regard.**

#### **Programme Implementation and Budget Monitoring**

74. Budget monitoring in Headquarters is the joint responsibility of technical departments and PBE. The divisions monitor financial progress in implementation of programmes on a monthly basis through the web-enabled enhanced Budget Monitoring Module (eBMM) and furnish to PBE Periodic Budget Reports as scheduled. PBE reviews the reports and suggests appropriate action as necessary.

75. It was noticed in audit that the submission of Periodic Budgetary Reports by the departments and PBE's communications of action to be taken on the same to the departments are generally satisfactory and within the established time schedule. The system for formulation, monitoring and variance analysis of standard rates is well set out in the Organization.

76. Weaknesses were noticed in monitoring the physical progress of achievements of biennial outputs by the technical departments. After PWB is approved and PBE communicates the allotment, the technical departments prepare the Annual Work Plans. These work plans based on the biennial outputs help divisions and decentralized offices to monitor programme implementation. The work plans have to be ready by 15 February of each year.

77. During audit of a sample of six Programme Entities in Programme 2.5.3 it was noticed that the estimated dates of completion and percentile of biennial output to be achieved were not indicated in most activity plans. Absence of such crucial information limits the effectiveness of review of progress.

78. **While the budget monitoring is generally satisfactory, I recommend that technical departments should include the estimated date of completion of biennial outputs and expected percentage of their achievements in the Annual Work Plans to facilitate more effective monitoring of physical progress.**

#### **Computerization of Budgetary Process**

79. Use of Information and Communication Technology to increase the efficiency and effectiveness has been the significant strategy of the Organization. The heart of the strategy, as far as the budgetary process is concerned, is PIRES (Programme Planning, Implementation, Reporting and Evaluation Support System), which is currently under implementation.

80. PIRES is envisaged as an integrated solution for strengthening the linkages between strategic framework, medium term plan, and biennial programme of work and for supporting results-based budgeting. The scope of the system included development of a departmental programme management tool kit (DPMT). This would provide support for output work planning and implementation monitoring as well as corporate programme implementation reporting and evaluation support.

81. At the time when the audit was conducted, two key modules had been implemented for the preparation of MTP and PWB. MTP 2004-2009 and PWB 2004-2005 were indeed formulated using PIRES. Several other systems continue to contribute to the budgetary processes. These include the enhanced Budget Monitoring Module (eBMM) integrated to the Oracle Systems for monitoring and forecasting of income and expenditure, bespoke software 'Cube' to support the development and issuance of institutional allotments to Budget Holders and a 'Cost Increase Information System' for forecasting and monitoring of cost increases and standard rates.

82. Audit examination indicated scope for increased training for Headquarters staff. Four training courses were conducted in Programme Entity Formulation in January-February 2003 before actual usage of PIRES for formulation of MTP 2004-2009 commenced. In total, 56 departmental staff participated in the course. These trained resource personnel were to pass on their knowledge to their colleagues in preparing MTP. This process was not effective as lack of focused training emerged as the general view of respondents during the auto-evaluation of PIRES-MTP.

83. The Organization stated that subsequent to the audit that was conducted, 175 staff members received briefing and training in the PIRES Summary Assessment-Programme Implementation module. Similarly, for preparation of MTP 2006-2011, a comprehensive "rollout", training and support plan has been implemented during the April-June 2004 period.

84. As per the implementation plan finalized in May 2001, the system was to be fully operational by September 2003. However, the project took off at full pace only in mid-2001 when the current project team was mobilized. The original project was conceived with a resource level of US\$ 507,000 for the 2002-2003 biennium, but additional resources of approximately US\$ 900,000 were made available from arrears, which resulted in expansion of the scope of the project.

85. An Inter-departmental Working Group (IDWG) has been established to advise PIRES project on the functional needs of users. In October 2003, the group finalized a plan for the next four quarters comprising seven work streams, including that of Work Planning and Annual Assessment, scheduled for release by February 2004. No targets were set for work streams relating to 'Cost increase and AOS Regular Programme/Field Programme interactions' pending completion of the modules underway at that time.

86. One of the common benefits of using Information and Communication Technology is the efficiency savings as a result of improved technology and work flow. However, no base-line data is available relating to costs of preparation of budget estimates as at present, even though considerable time is spent in technical departments on budget formulation. In the absence of such data, it will be difficult to verify any efficiency savings after full implementation.

**87. I recommend that efforts should be intensified to implement all the modules within the planned dates. I also recommend that periodical feedback should continue to be taken from the user community to determine their training requirements.**

### **Budgetary Resources by Region**

88. Member Nations have consistently expressed keen interest in Budget Documents reflecting the apportionment of Programme resources across regions. The budgets for Regional Offices and FAORs can be clearly and easily attributed to particular regions. Headquarters-based expenditures for Regions are allocated in notional financial terms. The guidelines issued by the Office of the Programme, Budget and Evaluation in May 2003 required that geographical distribution of resources by region should be done in proportion to the beneficiaries in the region.

89. Examination of the actual practice indicated that different departments in Headquarters were using a variety of methods, not always consistent with the guidelines issued by PBE. Some departments assessed geographical distribution on the basis of resources spent in a region by way of staff costs in terms of personnel deployed in a regional office and the resources spent on the programmes/projects focused exclusively on a region. Some departments considered only staff and non-staff costs of regional formations, while a few departments included expenditure on programme entities aimed at a region in addition to staff and non-staff costs.

90. The Organization assured that a clear methodology and uniform procedure for assessing geographical distribution of resources will be developed for preparations of the PWB 2006-2007.

91. **I recommend that to improve the quality and reliability of the figures of Programme Resources by regions, the Organization should ensure that all departments follow uniform methodology as laid down by the Office of Programme, Budget and Evaluation.**

### **TECHNICAL CO-OPERATION PROGRAMME**

92. Implementation of the Technical Cooperation Programme (TCP) was examined during the audit in Headquarters and in selected Regional and Country offices. Since completion of audit in Headquarters in June 2003, approval of TCP projects and disbursement of TCP appropriations have improved. My observations and recommendations take these improvements into account.

93. Key characteristics of TCP are its demand-driven nature and flexibility to respond to urgent needs of member countries. The continuous flow of requests for TCP projects reflects sustained interest of Member Nations in TCP and high priority of this programme. It is the largest major programme funded by the General Fund and appropriations for the programme constituted approximately 15 per cent of appropriations for Regular Programmes. From 1992-1993 to 2002-2003 appropriations for TCP increased by 23 per cent from US\$ 77.4 million to US\$ 95.4 million.

94. Financial Regulation 4.3 of the Organization authorizes appropriations for TCP for one biennium to be carried over to the following biennium while appropriations for other Regular Programmes are available for obligations only for the biennium to which they relate. Unspent appropriations increased sharply to 87 per cent of the total appropriations at the end of 2000-2001. The position has comparatively improved at the end of 2002-2003 with unspent appropriations at 65 per cent.

95. More significantly, during 2002-2003, the Organization has approved, for the first time, TCP assistance over and above the level of approved appropriations. TCP appropriations for 2002-2003 have been overcommitted by US\$ 14.0 million. This has two implications. In case, the

delivery against these projects is on schedule, the excess commitment will have to be adjusted against appropriations for 2004-2005. Secondly, a higher approval creates an eventual demand of cash and other inputs.

### **Disbursement of TCP Appropriations**

96. Disbursement against current appropriations of the biennium for TCP declined sharply in 2000-2001 when average monthly disbursement was US\$ 0.47 million. The primary reason for such reduced disbursements was high amount of carried over appropriations from the previous biennium and slow approval of projects. At the time of audit in the Headquarters, significant problem of slow delivery was noticed in case of individual projects approved in 2002-2003 and 2000-2001. The Organization has been able to reverse the trend with average monthly disbursement against current appropriations picking up to US\$ 1.4 million for 2002-2003.

97. The overall disbursement against the available TCP appropriations - both carried over from previous biennium and the current one- has also improved in the later half of the biennium 2002-2003. During the last six months of 2002, the disbursement against available TCP appropriations was US\$ 22.3 million. During the last six months of 2003, the disbursement has been US\$ 37.0 million.

98. The Organization acknowledged that the low average TCP project delivery has been a major issue and informed that several actions were taken since the end of 2002 to address the situation. It assured that the monitoring effort would focus on all ongoing projects to improve monthly rate of delivery. It would also ensure that newly approved projects commence their activities promptly.

**99. I recommend that in view of the persistent low disbursement in the past resulting in huge carried over appropriations, the Organization should take steps to increase disbursement substantially. I also recommend that the delivery in individual projects should be closely monitored in the Headquarters.**

### **Accounting of TCP Expenditure: Return Flow**

100. Appropriations voted by the Conference for the TCP, together with any funds transferred to the TCP under Financial Regulation 4.5 (b), shall remain available for obligations during the financial period following that during which the funds were voted or transferred (Financial Regulation 4.3). Under this system, expenditure on completed projects financed from the appropriations of the current biennium is recoded at the end of each biennium to the appropriations of the previous biennium to prevent lapse of unutilized appropriations.

101. In view of the need for some flexibility in the financial arrangements, the Finance Committee at its 46<sup>th</sup> Session of September 1980 endorsed the action taken by the Director General to utilize funds resulting from economies made on projects financed from the 1976-1977 biennium to fund projects which had originally been financed against TCP appropriation for the 1978-1979 biennium. At this Session, the Finance Committee also considered that the same practice should be applied in the future if and when the same situation would arise. The Council at its 78<sup>th</sup> Session took note of the guidance provided by the Finance Committee and endorsed the action of the Director General, as indicated above. The Council further emphasized that "every effort should be made to utilize fully the resources appropriated by the Conference".

102. The practice continues to date in conditions more complex and dissimilar than those when the Council endorsed the arrangement. The current practice is used not only to account for the return flow but also to prevent lapse of unutilized appropriations due to low delivery. Accounting procedures for this practice are not documented.

103. During the biennium 2000-2001, for the first time, unspent appropriations of the previous biennium, could not be fully expended even after transferring expenditures of completed projects. In respect of 138 ongoing projects, the Organization created new project accounts with budgets matching the expenditure of these projects up to 31 December 2001. These accounts were then closed at that level and adjusted against the unspent appropriations, although project activities continued. The practice has been repeated in 2002-2003 for 64 projects.

104. The Organization stated that to ensure the full use of TCP appropriations the only solution was to use actual expenditure in closed projects approved and implemented in the subsequent biennium to be charged against the return flow. It further stated that, for 2004-2005, over commitment of the appropriations and closing them as soon as total expenditure on TCP projects adds up to the voted appropriations will also reduce the necessity to resort to this procedure. In addition, the Organization agreed that splitting of projects between two biennia should be avoided to the extent possible. It, however, stated that the practice did not affect the implementation plan of the original project or reporting and monitoring of the entire project. The Organization agreed that the accounting procedures should be documented. With regard to the 64 projects, for 2002-2003, as mentioned above, the Organization stated that these projects were operationally completed at the ground level though formal operational and financial closure formalities were pending.

105. I am of the opinion that such informal and ad hoc accounting and reporting mechanisms create risks of weak controls. Since these are informal procedures, the approving authority for these is not stipulated. I note that the Organization did not bring these procedures to the attention of any of the Governing Bodies.

**106. I recommend that the Organization should bring the actual practice of the “return flow” process including the latest changes of this process to the notice of the Governing Bodies. I further recommend that the accounting and reporting procedures of the “return flow” process should be reviewed and codified. The monitoring mechanisms should be reoriented to adhere to these procedures.**

### **Approval of TCP Projects**

107. Project approval is a key step in the management of the Technical Cooperation Programme. From a peak of 423 days taken on average to approve projects in July-December 2002, the average days have come down to 244 days, which still is very high. Analysis of data indicated that though the approval process has shown improvements in 2003 in terms of number of projects approved, there is further scope for reducing the number of days taken for approving projects by simplifying project approval procedures and reducing paper work.

108. Approval of emergency projects took much less time than that for non-emergency projects. Examination of a sample of cases indicated that emergency projects took 3 to 4 months for approval, while non-emergency projects took 12 to 39 months. In many cases, extensive correspondence between Headquarters and field units contributed significantly to the delay.

109. The process of the TCP appraisal has two steps. The first step is to assess whether an incoming request is eligible for TCP funding and the second step to prepare the suitable project document for submission for approval of the Director General. With increasing multi-disciplinarity involved in TCP projects, the consultation process leading to a technically acceptable project has also become complex. This underlines the need of streamlining internal procedures, improving inter-departmental coordination and reducing paper work to cater to the requests in timely manner.

110. Examination of cases also indicated that preparation of the final project document by the Technical Departments took considerable time stretching from 2 to 32 months with average time of 13 months for a project, although about 50 % of the projects were approved within six months. Delays were mainly due to the requirement for inter-departmental coordination and the necessity to reformulate original proposals, received from governments, often not sufficiently well articulated. Many requests did not meet TCP criteria resulting in significant correspondence between Technical units and Technical Co-operation Department in Headquarters, Regional Offices and the FAORs and governments to align proposals to the TCP criteria.

111. The Organization concurred with the observation of audit that time taken for approval of projects should be reduced. It informed that since 2002, increase in approvals has been achieved by recruitment of temporary appraisal officers and simplifying procedures of appraisal and approval. Newly developed automated system (FPMIS) and instructions issued to the senior management to give priority has also contributed to the improvement of the situation.

**112. I recommend that the Organization should sustain the improvements obtained to date and introduce further measures to reduce the time taken for approving non-emergency and emergency projects.**

113. Analysis indicated that almost one third of project proposals received during 2000-2001 and 2002-2003 were cancelled, of this 50% were partly due to non-compliance. The rate of cancellation of projects in the Europe Region was noticeably higher than in other regions. While a large number of such project cancellations indicates appropriate scrutiny and filtering of proposals, it also reflects the need for more vigorous in-country screening and appraisal of projects.

114. The Organization acknowledged that given the number of cancellations there is scope for improvement in screening project proposals, and assured that additional guidance will be provided to FAORs for in-country appraisal and improving understanding of TCP criteria.

**115. I recommend that sustained measures should be taken to improve in-country project appraisal to reduce the number of cancelled projects. The Organization also should disseminate information about Technical Cooperation Programme criteria among the governments of the Member Nations to enable better formulation of Technical Cooperation Programme projects.**

### **Implementation of TCP Projects**

116. Implementation of TCP projects in European region and other Regions and FAOR offices was reviewed on test check of a sample of projects. My observations are discussed under the following headings: (a) Headquarters (b) Field Units. Audit review at Headquarters included examination of implementation of projects in the Europe Region and the Emergency projects, which are managed from Headquarters.

## (a) Headquarters

### Europe Region

117. The implementation of TCP projects in European region was seen to be considerably weak in general. Delivery in most of the projects was very low at the time of audit. The Organization informed that the total delivery of TCP projects in this region had increased in 2003 to US\$ 3.1 million representing an increase of 150 per cent over that of 2002 (US\$ 1.2 million).

118. Project approval for these countries involved 5 to 41 months. This delay was compounded by further delay in signature of project documents by the concerned Government, where required. In one extreme case, the project was approved in December 2000 - three years after the request- and was then operationally closed in July 2002 after spending US\$9,494 as a result of Government's decision that the project was no longer needed and consequent decision not to sign the project document. In two other cases, even though the projects were approved in October 2001 and July 2002 respectively, project agreements were not signed up to the time of audit in June 2003. The Organization informed, however, that project delivery and the lack of signature of the project document are not always closely linked. TCP projects become operational on approval by the Director-General while project implementation and delivery of a TCP project start only when government has signed the agreement, which is followed by the appointment of a National Project Coordinator.

119. Due to absence of FAORs in most of the country offices in the European Region, the Organization implements projects through UNDP offices or National Project Coordinator in these countries. The Organization therefore has to rely heavily on the capacity of UNDP and National Project Coordinators for implementation of TCP projects. In nearly one third of the projects reviewed in audit, lack of experience or knowledge of the National Project Coordinators in project administration clearly contributed to delay in project implementation.

120. Considerable delay was also noted in formation of inception missions for TCP projects in the Europe Region. The inception mission ensures delivery of inputs and establishes linkages between inputs, as important project launching exercise. However, in 55 per cent of cases test checked in audit, inception missions took place three to seven months after project approval. The Organization stated that the fielding and formation of the inception mission is linked to the nomination of a National Project Coordinator by the recipient government.

121. In most cases, the project documents were required to be translated into the official language of the concerned country and this process took two to three months.

122. Stating that many of these reasons were beyond its control, the Organization concurred with the necessity of having standard guidelines for national project personnel and the National Project Coordinators. The Organization informed that the 'operations component' of the web based Field Programme Manual would also be made available to the national counterparts.

123. **I recommend that the Organization should take concrete steps to reduce delay in project implementation in Europe region by strengthening the capacity of the National Project Coordinators through training and detailed guidelines. It should identify the common factors for delay and take action to ameliorate them.**

## Emergency Projects

124. Emergency Operations and Rehabilitation Division in Headquarters is responsible for responding to requests for emergency assistance in the agricultural, livestock and fisheries sectors submitted by developing countries affected by exceptional natural or human-induced calamities. TCP operates in the phase immediately following a disaster. Speed of action is the most critical factor to achieve success in these cases. For implementation of emergency projects funded by TCP, TCEO uses the services of FAO Representatives and international/national consultants who act as emergency coordinators in the field for both implementation and monitoring.

125. Funding for emergency projects has increased from 15.3 per cent of TCP allocations in 1994-1995 to 27.4 per cent in 2000-2001. The TCP emergency interventions were primarily on the supply of agricultural inputs (e.g. seeds, fertilisers) and veterinary medicines with technical assistance. Procurement for TCP emergency projects is carried out through the Procurement Service (AFSP) in Headquarters and in some cases through FAORs and procurement missions sent from Headquarters.

126. In a good number of emergency projects checked in audit, seeds and other inputs were not made available in time for the intended cropping seasons. However, in most cases, they were used in the following cropping season. In a few cases, the delay resulted in major problems. There were also instances where suitable seed varieties were not available. It appears that management capacity at the field level is limited when there is no specialized emergency operations staff on the ground to support implementation.

127. Due to delay in delivery of inputs and shortcomings in project implementation, the achievement of intended objectives was reduced in a number of cases.

128. The Organization informed that it was committed to prioritizing local varieties and local procurement. The Organization also informed that inter-departmental efforts were under way to address the issue of seed selection and the issues of delivery and matching choices of inputs with the farming systems.

129. **I recommend that procurement procedures should be improved to ensure that inputs like seeds and fertilizers are available for the emergency projects at the time when these are needed.**

130. **I also recommend that lessons learnt and ways to meet the critical risks in various emergency projects should be documented from time to time for use by various concerned agencies and for strengthening institutional memory.**

**(b) Field Units**

131. In the three Regional Offices visited by audit, delivery of regional TCP projects was low due to complexities in the inter-country projects and varied pace and nature of response from participating governments. Delay in identification and recruitment of consultants, lack of accurate and timely information on the computer systems, revision of project documents and lack of familiarity of regional office staff in the full potential of use of FPMIS were major contributors to delay in project implementation.

132. Administrative support provided by Regional Offices to the country offices was not adequate in two of the three Regional Offices. Recruitment of consultants, procurement activities and travel were the main areas where this support was inadequate. Project implementation suffered due to the delay in providing these critical inputs in time. Absence of regional level consultant rosters hampered the recruitment process of consultants.

133. Operational support from Regional offices to the country offices in implementation of TCP projects was limited to help-desk functions due to reduced resources available at Regional Operational Branches. The extent and nature of technical and administrative support required by the country offices subsequent to decentralization was not adequately assessed to decide the revised strength of Regional Operations Branches (ROBs). IT-based monitoring tools were not adequately available to ROBs for project monitoring.

134. Monitoring of project implementation by ROBs was generally weak. The long delay in operational and financial closure of projects with reference to the end dates was also not monitored. As a result, in all regions slippages in delivery and long delays (up to six years in some cases) in project closure were noticed. The Organization informed that action has since been taken to provide the ROBs with training and tools to significantly improve their monitoring and coordination functions. It is expected that further support to the ROBs in this area will be provided on a continuing basis.

135. Quarterly Project Implementation Reports (QPIR) - an important control mechanism for effective monitoring of these projects- were not prepared for regional projects in the regional offices. Instructions from Headquarters of May 2003 to the Regional/Country Offices reiterated that all budget holders should prepare such a document. This required compliance in the Regional Offices.

136. The Organization informed that one major review has been conducted focusing on field programme support by ROBs and Management Support Units of the Regional Offices. The Organization further confirmed that among the measures implemented to improve project implementation was a regional task force set up by all the regional offices. The Organization agreed that QPIRs should be prepared and utilized for effective monitoring and assured that efforts would be made to enforce its preparations at all levels.

137. Review of implementation of TCP projects in the country offices (FAORs) visited by audit indicated common weaknesses such as:

- Budgetary and expenditure data were not updated in Oracle Data Warehouse and FPMIS due to delayed uploading of Field Accounting Systems (FAS) data. As a result, FAORs had to maintain off book accounting and work with shadow budgets. Knowledge of staff in use of IT tools was limited.
- Project commencement was delayed due to delay in signing of project documents by governments and the appointment of National Project Coordinators.
- Recruitment of consultants was hampered due to lack of delegation and absence of adequate information regarding consultancy skills. Procurement was hampered due to the lack of knowledge of staff in administrative procedures. Both factors delayed project delivery.
- Due to inadequate project formulation, critical project components were not foreseen in several cases and projects needed multiple revisions.
- QPIRs were not prepared properly or used effectively to monitor projects.
- Operational and financial closure of projects was delayed indefinitely in many cases.
- In several cases project inputs were over-assessed, leading to non-utilization of project budget.

**138. I recommend that the Organization should take concrete steps to substantially enhance capacity in project management in all aspects by the field units. The administrative support and operational guidance to be provided by the Regional Offices and Headquarters to the field offices, being a key aspect of decentralized operations, should be monitored closely to avoid slip up in project implementations.**

**139. I also recommend that the Organization should take all possible steps to train the staff to optimize the benefit of Information Technology resources available in the Regional and Country offices.**

### **Operational and Financial Closure of Projects**

140. Considerable delay was noticed in operational and financial closure of projects. In case of most projects the status of operational and financial closure was not known. In an extreme case, in the Regional Office in Africa (RAF), TCP projects were not operationally and financially closed for five to six years and a consultant was hired to assist in the closing of such projects. Long delays in closure formalities make the procedure cumbersome due to the difficulty in assembling appropriate documentation at a much later date.

141. The Organization stated that operational and financial closure of completed projects had to be given lower priority in 2001 and 2002, immediately after the transfer of operational responsibility to FAORs, as the first priority had to be given to adapting operational procedures to the new decentralized field operations. However, as part of the biennium closure, 515 projects of the previous biennium were financially closed and improved monitoring tools are now available in FPMIS.

**142. I recommend that the Organization should closely monitor the closure of projects and develop suitable reports for this purpose.**

### Technical Support Services Costs

143. Presently, Technical Support Services (TSS) costs for TCP are linked to the provision of technical services in approved projects but do not envisage reimbursement for costs incurred by the technical departments for project formulation work. Claims for reimbursement are made through reports on completion of various tasks. The system is complicated and involves avoidable paper work. Due to the relatively small size of individual TCP project budget, quantum of paper work does not provide incentive to the technical departments to claim reimbursement. This system needs improvement so that resources are available to the technical departments in time to plan for the utilization of the resources in keeping with the demands of work. Final reimbursement can be released upon project completion when Technical Services Statements are completed.

144. Consequently, a large part of TSS income from TCP remains unclaimed up until the end of the biennium in which the project is completed. In the biennium 2002-2003, US\$ 3.1 million of the budgeted US\$ 5.1 million for TSS remained unclaimed as at July 2003, though almost all the TSS budget for the biennium 2000-2001 had been claimed as at 31 December 2003. The Organization informed that the TSS mechanism does not envisage advances to the technical departments for their technical support relating to TCP projects.

145. The Organization informed that the present system of TSS claims were being reviewed with the aim to simplifying procedures and this included an advance allocation as proposed by the External Auditor. It is also noticed that the automated system FPMIS provides help and guidelines to enable formulation of projects.

**146. I recommend that the review of the Technical Support Services claim system be completed as a priority and that the resulting modified procedures be implemented as early as possible.**

### Programme Evaluation

147. The Evaluation Service in the Office of Programme, Budget and Evaluation conducted five thematic evaluations of a cluster of TCP projects between 1996 and 2003. These evaluations brought out important lessons and issues and the strengths and weaknesses in TCP projects.

148. Audit analysis indicated that issues relating to weaknesses in formulation and approval processes raised by the evaluation missions have not been systematically addressed. While the concerned departments have taken on board many of the recommendations to improve formulation and approval processes, they have not translated these into specific guidelines based on these evaluations per se.

149. The Organization agreed that there is need for better use of findings of TCP cluster evaluations. It assured to formulate methodology for ensuring that feed back on evaluation findings and key lessons could be used by project formulators and budget holders during designing, implementing and managing TCP projects.

**150. I recommend that the Organization should ensure effective use of evaluation findings in management of Technical Cooperation Programme projects in a time-bound manner.**

### **Budgetary and Performance Reporting**

151. Financial Regulation (FR) 4.6 requires the Director-General to manage the appropriations to ensure that adequate funds are available to meet expenditures during the biennium. The Finance Committee (FC) reviews implementation of this regulation through the Annual Report on Budgetary Performance (ARBP). The ARBP for 2002 discussed by the FC in its 102<sup>nd</sup> session showed 2002 expenditure/commitment for TCP as US\$ 45.3 million against appropriation of US\$ 46.2 million. The expenditure related mainly to the carry forward appropriation of 2000-2001. However, the chapter-wise summary of the same document correctly indicated this position.

152. The Programme Implementation Report (PIR) sets out the Organization's achievement during the biennium with the resources placed at its disposal under the Regular Programme appropriation and extra budgetary funding. The report on major programme 4.1 for Technical Cooperation in PIR 2000-2001 mainly gives statistical information regarding total appropriation and expenditure, number and value of approvals, category wise TCP projects, region wise approval amounts for the last five biennia. However, the report does not reflect adequately key aspects of implementation relating to project formulation, approval, commencement, delivery, and operational/financial closure to facilitate review and monitoring by the Governing Bodies.

153. The Organization assured that these suggestions would be taken into account to improve future presentation in the Annual report on Budgetary Performance and provide additional information in PIR for 2002-2003.

**154. I recommend that the Organization should enhance the reporting in the Annual Report on Budgetary Performance and Programme Implementation Report to facilitate review and monitoring of the Technical Cooperation Programme by the Governing Bodies.**

### **PROCUREMENT FUNCTIONS BY AFSP IN HEADQUARTERS**

155. The efficiency and effectiveness of procurement of goods and materials by the Procurement Service (AFSP) in FAO Headquarters including the systems, procedures and internal controls were examined in audit. Other purchase actions such as contracts, Field Purchase Orders, etc. were not covered in this review.

156. AFSP has three operational groups concerned with Contracts, Purchasing and Assets. At the time the audit was conducted, the Purchasing group had three Units. One of them was dedicated to procurement of inputs for Iraq "Oil For Food" Programme and was dismantled on termination of the programme.

157. During 2002-2003, 3,460 Purchase Orders were issued by the Procurement Service (AFSP) for a total value of US\$290.0 million, as per statistics provided by AFSP. A sample of these Purchase Orders was examined in audit. In addition, three Purchase Orders to the total value of US\$82.4 million and one cancelled Purchase Order valuing US\$57.4 million relating to emergency procurement of fertilizers under SCR 1472 were examined in audit.

### **Delays in Procurement**

158. In his report for 2000-2001, the External Auditor recommended that reasons for delays in procurement should be investigated with the objective of re-engineering the process or adjusting the staffing level. Management had stated that a study was conducted and staff level was strengthened in 2002.

159. The timeliness of supply was verified in the Purchase Orders out of the sample relating to procurement of seeds and fertilizers as these items are seasonal and delay in supply can critically affect the programme. Calculated from the “need by” date to the final delivery date, the delay ranged from 10 days to 75 days in 44 per cent of the cases. A formal procedure should be put in place for systematically reviewing reasons for delays in placing Purchase Orders and contracts.

160. I consider that the “need by” date indicated by the requesting division is an important parameter for the Organization where seasonality is involved and monitoring should be done in this light. As mentioned in Paragraphs 126 and 127 of this report, delay in supply of critical inputs affected emergency projects adversely.

161. The Organization stated that the “need by” date mentioned in the purchase requisition cannot be considered a parameter for determining the “delays” in procurement activities, as this date is only indicative of the wish of the requesting division. It further stated that the real “need by” date, in fact is the one mentioned in the Purchase Order as it represents the requirement of the Organization following consultation with the requisitioning divisions. However, the Organization agreed that this matter will be looked into by an inter-departmental working group.

**162. I recommend that the Procurement Service (AFSP) should develop a formal procedure to review timeliness in supply of commodities where seasonality is involved to ensure that delivery is made by the date by which the supply is required. The inter-departmental working group, which is proposed to be set up, should look into this aspect in particular.**

### **Inspection of goods**

163. To ensure that goods to be procured meet required specifications, these are inspected by an independent superintending agency. AFSP relies on the inputs of the technical divisions for the appropriate type of inspection to be carried out. A review of the system of inspection to be conducted at loading points indicated the need for strengthening certain weaknesses in the system.

164. Purchase Orders provide for shipment without receipt of inspection report. In several cases relating to supply of seeds, pesticides, fertilizers, vaccines, agricultural equipment and vehicles, inspection reports were received 28 to 55 days after shipment. As delivery takes place by that time, the safeguards inherent in the system against supply and consumption of substandard goods may be weakened due to the delayed receipt of Inspection Reports. The Organization explained that generally distribution to final beneficiaries does not take place until an inspection report is received, except in emergency situations.

165. While delay in submission of inspection reports from the date of inspection is liable to penal action, there is no penalty for delay in undertaking inspection. In one case, the supplier

contacted the superintending agency for inspection of the consignment and the latter did not respond.

166. The Organization agreed to review current practices concerning the inspection of goods especially for seeds, animal feeds or vaccines and to develop guidelines regarding the choice and use of inspection companies.

167. **I recommend that the Organization should document the practice of distribution of goods to final beneficiaries after receipt of inspection reports and should review other inspection practices urgently. Any revision should be implemented in a time-bound manner.**

### **Penalty Clause**

168. Normally a penalty clause is included in Purchase Orders for delay in delivery beyond the agreed date. Audit examination indicated that the rates and conditions for penalty differ from case to case even for procurement of the same or similar goods, such as seeds and fertilizers, agricultural tool kits and vaccines. The calculations and authorization details of penalties are not kept in the purchase files. In their absence, basis for imposition of the penalty rate cannot be verified easily.

169. The Organization stated that while standardization is desirable, particular circumstances may require a more stringent approach whenever the consequences of events such as late delivery or default reach unusual levels.

170. **I recommend that the Organization should standardize provisions of penalty and maintain in the purchasing files the calculations and authorization details. Exceptions in specific situations should have the approval of a designated authority and supported by recorded reasons.**

### **Record Keeping**

171. Examination of purchase records in AFSP indicated significant scope for improvement. Documents in the tender files were not page numbered or arranged chronologically. Important and confidential correspondence and unsuccessful bids were kept loose in tender files. Safeguards against possible loss of records and documents from the file folders should be introduced and electronic correspondence with suppliers should be regularly copied to the registry.

172. The Organization agreed that bids and other documents should be maintained in the tender files in a secure manner in a logical and appropriate order but cited bulk of files, resources and budgetary uncertainty as constraints. It agreed that formal procedures of filing of procurement records were considered desirable but the issue had not received high priority due to limited resources. The Organization also informed that the development of the Digital Records Management Systems (DRMS) should significantly improve the situation.

173. **Proper maintenance of procurement records being of critical importance, I recommend that the Organization should formalize and implement, on priority, procedures relating to maintenance of procurement records.**

### **Internal Reporting**

174. The internal reporting system in AFSP needs to address the issues of effective internal control. The Purchase units in AFSP do not prepare any formal periodic reports on the progress of purchase cases. Chief, AFSP forwards an annual statistical report on geographical distribution of Purchase Orders/Contracts by country and supplier to the Director, AFSD. The Director sends a quarterly statement of Purchase Orders/Contracts above US\$ 1 million issued during a quarter to ADG/AF. Ad hoc reports on some aspects of purchase actions are generated, as and when required, for senior management.

175. These reports do not provide opportunity for close monitoring of delays or progress of procurement cases. Thus, timely intervention by AFSP management is dependent on the alertness of the Purchase Officers dealing with the particular case or an ad hoc query. Absence of a formal reporting system for review and monitoring of Purchase Orders/ contracts is not conducive to a good control environment.

176. The Organization indicated that it foresees that improvements and modifications to the IT systems for AFSP will provide enhanced reporting arrangements resulting in improved reporting and monitoring functions.

**177. I recommend that suitable internal reporting arrangements should be implemented for effective monitoring of progress of purchase cases. Information Technology support to procurement service should be enhanced on a priority basis to improve monitoring.**

### **Procurement Committee**

178. The FAO Manual requires that cases where less than three competitive bids are received should be examined by the Procurement Committee. In 44 per cent of the cases checked in audit, the number of valid responses was less than three after exclusion of offers which did not meet the specifications. Such cases were not submitted to the Procurement Committee as the Organization interpreted the term 'competitive bid' as the one which was submitted in accordance with procurement procedures and within the deadline stipulated in the tender, even though it did not meet the specifications.

**179. I recommend that purchase cases with less than three bids meeting specifications of the tender should be submitted to the Procurement Committee in accordance with the financial limits set out in the Manual.**

### **Rotation of Personnel in AFSP**

180. The Organization has not adopted a formal policy for rotation of staff within the Organization and there is no system for formal training of professional staff of AFSP in engineering and technical aspects of goods and services.

181. The Organization agreed that rotation, in principle, is a good mechanism resulting in increased risk awareness but pointed out practical difficulties in implementing a rotation policy. In addition, the Organization informed that it would support the suggestion of the training bearing

in mind the already extensive existing technical expertise in the technical departments of the Organization.

**182. I recommend that the Organization consider the feasibility of developing technical expertise within the procurement division and rotation of personnel in the division as a potential tool to further enhance internal control.**

#### **Procurement of Urea under Oil for Food Programme**

183. During the second half of 2003, the scale of emergency purchase actions increased significantly due to procurement of inputs under SCR 1472 within a very short time frame. In July 2003 a project was approved for procurement and supply of 350,000 MT of Urea and 140,000 MT of DAP. Delivery of Urea was to be completed by middle of November 2003 to support the wheat and barley planting season. Requirements of selecting competent and reliable suppliers, obtaining competitive price and ensuring timely supply needed to be managed.

184. Following existing procedures, the Purchase Order was placed on the lowest bidder on 9 September 2003 for supply of the entire quantity of 350,000 MT of Urea for US \$ 57.4 million. The Performance Bond was decided at a very high level of 20 per cent of the purchase order. The decision was taken without any recorded analysis of the appropriateness of the rate. The supplier neither furnished the performance bond nor could supply the material.

185. After fresh tendering, three Purchase Orders were issued on three suppliers on 19 and 21 November 2003 for a total amount of US\$ 81.2 million for 328,000 MT of Urea. The Performance bond was reduced to 5 per cent in the second tender. In terms of the project originally approved, the supply was to be completed by middle of November 2003. However, these purchase orders were assigned on 21 November 2003, upon the termination of the "Oil for Food" Programme, to the Coalitional Provisional Authority (CPA) and the Iraqi Ministry of Agriculture (MOA) and the Organization had no further role in the execution of these Purchase Orders. Till April 2004, very little supply materialized.

186. Examination of these cases in audit indicated that the Organization should have assessed the application of current procurement practices and standard operating procedures in AFSP to handle the sudden surge of procurement action. The reporting arrangements did not provide timely opportunity for senior management to monitor the progress of purchase actions of such high value and thus the senior management was not informed of important developments of the case in timely manner.

187. The Organization informed that the decision was viewed as an operational one and was taken after consultation with the managers responsible for the procurement function and based on the Procurement Service's experience with performance bonds in contracts and other indicators. However, after various communications with the supplier, it became apparent that the supplier was not in a position to deliver the goods or the performance bond and the order was cancelled.

188. The Organization also maintained that its existing procurement practices and standard operating procedures were adequate to handle these procurement activities in that the Organization had the alternatives of the Procurement Committee review or the tender process. In this case, the tender process was followed for reasons of maintaining transparency and procedural fairness.

189. The Organization agreed that a comprehensive risk assessment of its operations, including procurement, should be undertaken and the Quarterly Activity Report of the Inspector

General to the Director General would identify risk areas, including those related to high value procurements. It also agreed to undertake an inter-departmental review of the provisions in the manual to ensure that these provisions facilitate addressing risks in procurement including high value procurement. It further stated that the issues of quality and accuracy of specifications will also be taken up during the inter-departmental review.

**190. I recommend that the risk assessment in procurement functions should be completed in a time bound manner and the review of the provisions of the Manual and the levels of delegation of authority should be finalized and implemented at the earliest.**

### **Loss due to erroneous Purchase Order**

191. In June 2001, the Organization issued a Purchase Order for 530 irrigation pumps with engines which were actually air-cooled for delivery to Iraq although the bid requirements was for supply of pumps with water-cooled engines. The inspecting company while inspecting the engines at the supplier's warehouse informed the Organization that engines about to be shipped were not according to the requirements of the bids. The shipment was halted and was effected only in July 2002, after the local administrations agreed to accept the air-cooled engines.

192. In February 2003, the supplier claimed US\$ 2.2 million for damages due to halting supply and consequent costs. The Organization settled the supplier's claim out of court for an amount of US\$ 1.2 million in October 2003. The Organization has not established responsibility for this loss. The Organization informed that it has assessed the reasons leading to the error regarding the pumps and has taken steps to correct the procedures.

### **AUDIT OF DECENTRALIZED UNITS**

193. During the biennium 2002-2003, selected management issues and regularity aspects were examined in four Regional Offices and eight FAOR offices.

194. FAOR offices needed significant improvement in implementation of field programmes and project management. Inadequate project formulations, revision of starting dates and ending dates of projects, slow implementation of projects and inadequate monitoring in the offices visited by audit affected not only TCP projects, but also other projects such as Telefood projects. The technical and operational capacities of FAORs and the staff emerged as key issues in this context.

195. A significant number of FAORs were new to their jobs during the biennium 2002-2003 and several of them even new to the Organization. Many of the support staff in the decentralized units were also new. Insufficient familiarity of staff in project management as also the rules and procedures of the Organization indicated the need for training and development of staff capacity in these areas. Five FAOR offices audited were provided with a budget for staff development (training) ranging from US\$ 4000 to US\$ 8000 each during 2002-2003. In two offices nearly 40 per cent of the budget allotment remained unspent.

196. Regional workshops for FAORs and their staff were organized in 2002 and short-term refresher courses were held in 2003. Several FAORs joined after these events. The main training input for these newly recruited FAORs was the three weeks briefing in the Headquarters.

197. The Organization acknowledged the need for regular and sustained training of the FAOR and their staff in order to strengthen their operational capacity. It however stated that in view of budgetary constraints it was concentrating on other means of training than workshops.

**198. I recommend that the Organization should take concrete steps to improve the project and programme management capacity of the FAO country offices. The utilization of the training budget by FAO Representations should be closely monitored.**

199. At the time of audit, support from Regional Operations Branch (ROBs) in the Regional Offices to FAORs was found to be inadequate. Significant reduction in the strength of ROBs left them with inadequate resources to support the operational needs of FAORs. Monitoring by ROBs of the progress of the projects in the country offices was not effective.

200. The Organization informed that the situation is now more consolidated and that FAORs are required to interact more with the Management Support Units in the Regional Offices as the role of ROBs has ceased to be a “Help Desk” function.

## **Regularity matters**

### **Local procurement**

201. Internal controls in local procurement were weak in the Regional Office for Africa. List of potential suppliers was not maintained and despite observations by internal audit, Technical Officers bypassed the established procurement unit by directly obtaining bids.

202. The Organization informed that with introduction of RAF specific internal procedures for procurement, the list of potential suppliers is in place. The practice of bypassing the RAF procurement unit has ceased.

203. In several FAOR offices internal control weaknesses in procurement actions were noticed during audit. These included absence of updated lists of bidders, non-obtaining three quotations for procurements or absence of recorded results of formal evaluation of bids with technical analysis. In some offices, Purchase Orders issued by FAORs did not include delivery dates, penalty clauses or specification of VAT component. Similarly in some offices; the invoices did not include running serial numbers. Receipts and copies of purchase orders were not attached to the disbursement vouchers.

204. The Organization informed that it has issued instructions to FAOR offices requesting full compliance with the financial policies and procedures. It further stated that monitoring is assured through internal audit missions, as scheduled in the audit plan and by regular oversight and support visits by OCD officers.

**205. I recommend that the Organization should closely monitor compliance with the rules of the Organization regarding procurement procedures by Regional offices and FAO Representations.**

## **Personnel Management**

206. Continuity and retention of skilled national staff was a persistent problem both in the Regional offices and Country offices. These offices were resorting to various deviations from procedures in meeting this problem, such as hiring national consultants for longer periods than permitted, using contract instruments meant for lease of premises, utilities, etc., to hire support staff and engaging casual labour without a reasonable interruption or with nominal interruption.

207. The Organization informed that a quick reference guide on personnel-related matters has been issued in December 2003. For continuity and retention of skilled staff, the Organization is considering evolving new contract instruments. The Organization also advised that it intends to introduce a new section in the FAO Manual on national project personnel which would address the issues relating to longer-term employment of locally recruited professionals.

208. **I recommend that the intended revision of the Food and Agriculture Organization's Manual be carried out as early as possible so that issues relating to longer-term employment of locally recruited professionals can be clear to all concerned.**

## **Local Audit Scheme for FAORs**

209. A scheme for local audit of FAORs was introduced in 1996 as an instrument of enhancing the control environment in the financial management of the country offices. Expenditure on the scheme during 2002-2003 was US\$ 1.2 million. In some cases, in the offices covered by external audit, several aspects mentioned in the Terms of Reference valid until 2002 like verification of fixed assets, selection of disbursement records for scrutiny and review of internal controls were not complied with by audit firms engaged under the local audit scheme. Receipt of audit reports in Headquarters was also delayed in some cases.

210. The Organization informed that in 2003, it has made changes in the Terms of Reference for local audit to conduct audit according to generally accepted International Auditing Standards and to provide assurance of true and fair presentation of accounts. It also informed that a number of steps have been taken to improve monitoring of these audit reports in the Headquarters.

211. **I recommend a standard check list for review of the local audit report in Headquarters should be developed. The impact of the local audit scheme on the internal controls of the country offices should be evaluated periodically.**

## PART III

### OTHER MATTERS

#### Write-Offs

212. Financial Regulation 10.4 authorizes the Director-General the writing off of losses of cash, supplies and equipment and other assets, other than arrears of contributions. A statement of such losses written off during the financial period is required to be submitted to the External Auditor with the final accounts.

213. During the biennium the cash balance of US\$ 43,105 held with the Central Bank of Somalia was written off due to the law and order situation of the country

214. During the biennium, no ex-gratia payment was approved.

#### Cases of Fraud or Presumptive Fraud

215. In pursuance of item 6 (c) (i) of the Additional Terms of Reference governing External Audit, the Organization provided a list of 8 cases of fraud and presumptive fraud, known to the Organization for the biennium 2002-2003 and information regarding follow-up of previously reported cases.

216. The eight cases of fraud and presumptive fraud involved conversion and theft of cheques (two cases amounting to US\$ 54,130), irregular expense cases (two cases amounting to US\$ 3,971), non-official purchases charged to the Organization's account (one case amounting to US\$ 1,750), misappropriation of petty cash (one case amounting to US\$ 152) and funds (one case amounting to US\$ 121), and private telephone calls charged to the Organization (one case amounting to US\$ 14,000).

217. The total amount of loss in these cases amounts to US\$ 74,124 of which US\$ 16,867.66 have been recovered. The Organization stated that recovery of an amount of US\$ 13,805 will be made in two cases. Possibility of recovery for the remaining amount of US\$ 43,451.34 is uncertain.

218. I am of the opinion that appropriate action and sanctions were taken, where applicable, in these cases.

219. Follow-up of the previous cases were also seen in audit. In the case of the previously reported irregular claims for rental subsidy by a UN staff member the subsidy payments were recovered. FAO Appeals Committee to whom the staff member appealed concluded that claim of relief failed entirely and recommended rejection of the claim as unfounded. The Director General accepted the recommendation.

220. A General Service staff member, who unduly obtained promotion to the Professional category on the basis of false representation regarding educational qualifications, was dismissed from service in February 2002. The staff member appealed against this decision to FAO Appeals Committee, which recommended that the appeal be rejected and appellant's position in the professional category be maintained up to the date of his dismissal. The Director-General accepted the first recommendation but did not accept the second. However, in the light of observations made in the report of the Appeals Committee regarding the level of work performed by the appellant, the Director General decided to grant him a non-pensionable post allowance from the date of his promotion to the professional category until the date of dismissal. The allowance in question for an amount of US\$ 26,131 has not yet been disbursed as the staff member passed away in August 2003.

221. In another case involving fraudulent medical claims, all the six persons involved were dismissed for misconduct.

#### **Measures for fraud prevention**

222. In response to the recommendations made during the audit of the cases of fraud and presumptive fraud, the Organization has assured that a focal point will be established in Headquarter to coordinate fraud and presumptive fraud related matters. Implementation of the Policy on Fraud and improper use of Organization's resources will also be assessed on an annual basis. The Organization also agreed to make an assessment at the end of 2004 whether FAO Representations have taken the necessary steps to improve internal controls, as warranted.

#### **Acknowledgements**

223. I wish to record my appreciation of the cooperation and assistance extended by the Director General, his officers and staff during the audit.

224. I also wish to record my appreciation to Auditor General of Ghana, Federal Auditor General of Ethiopia and Comptroller & Auditor General of Bangladesh for providing their officers to conduct audit of selected Units.



**(Vijayendra N. Kaul)**  
**Comptroller & Auditor General of India**  
**External Auditor**

**10 September 2004**