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**Food
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**Organización
de las
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para la
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y la
Alimentación**

CONFERENCE

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FINANCIAL REPORT AND STATEMENTS: VOLUME I REGULAR PROGRAMME 1992-93

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REPORT OF THE EXTERNAL AUDITOR TO THE CONFERENCE OF
THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS ON
THE FINANCIAL STATEMENTS OF THE REGULAR PROGRAMME, TRUST FUNDS AND
OTHER FUNDS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 1993

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INTRODUCTION

Scope of the Audit

1. I have audited the accounts of the Food and Agriculture Organization (FAO) for the period 1 January 1992 to 31 December 1993 in accordance with the Financial Regulations of the FAO and the Additional Terms of Reference Governing External Audit appended thereto.

2. My financial audit for the 1992-93 biennium included an examination of FAO's Regular Programme accounts; Investment Reserves; the Investment Bank Cooperation Programme; the United Nations Development Programme (UNDP) financed activities; the United Nations Population Fund (UNFPA) financed activities; and other technical cooperation activities financed by Trust Fund Donors. I present separate audit opinions on the status of funds advanced to the FAO by UNDP and UNFPA, on the Trust Fund Programme, and on the FAO World Bank Cooperation Programme.

Audit Objectives

3. The main purpose of the audit was to enable me to form an opinion as to whether expenditure recorded in 1992-93 had been incurred for the purposes approved by the FAO Conference; whether income and expenditure were properly classified and recorded in accordance with FAO Financial Regulations; and whether the financial statements presented fairly the financial position at 31 December 1993.

4. My audit 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. These standards require me to plan and carry out the audit so as to obtain reasonable assurance that the Organization's Financial Statements are free of material mis-statement. The Organization's management were responsible for preparing these Financial Statements, and I am responsible for expressing an opinion on them, based on evidence collated in my audit.

Audit Approach

5. My examination was based on a test audit in which all areas of the financial statements were subject to direct substantive testing of transactions from statistical samples. A final examination was carried out to ensure that the financial statements accurately reflected FAO's accounting records and were fairly presented.

6. During the biennium my staff carried out financial audits at FAO headquarters and at Field Offices and Projects in the Americas, Africa and Asia and discussed their findings with the Secretariat. The audit included:

- a broad assessment of internal controls for income and expenditure; bank and imprest accounts; accounts receivable and payable; and supplies and equipment;
- substantive testing of sample transactions for 1992 and 1993 covering all sources of funds; and
- an examination of unliquidated obligations carried forward to 1994-95.

Overall Results

7. My audit examination included a general review and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. These audit procedures are designed primarily for the purpose of forming an opinion on FAO's financial statements. Consequently my work did not involve a detailed review of all aspects of budgetary and financial information systems and the results cannot be regarded as a comprehensive statement on them.

8. My examination revealed no errors in the final Financial Statements considered material to their accuracy, completeness and validity as a whole. I was able to reach this opinion after FAO had made significant adjustments in two areas of the Financial Statements, which my staff had brought to its attention (see paragraphs 33 and 125 to 128).

9. A summary of main findings and recommendations on financial matters from the audit is reported at paragraphs 33 to 36. I have set out the detailed findings of the examination at paragraphs 125 to 145.

Review of Management Matters

10. In addition to my audit of the accounts and financial transactions, I carry out reviews under Article 12.4 of the Financial Regulations. These reviews of management matters primarily concern the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of FAO.

11. In 1992-93 my staff examined the action FAO has taken to remedy problems which arose in 1990-91 on the FINSYS system; and also reviewed FAO's financial control of the Field Programme. I have reported a summary of the main findings and recommendations arising from these reviews at paragraphs 16 to 32. The detailed findings from the examinations are set out at paragraphs 37 to 124.

12. My observations on the action taken by FAO in response to the recommendations in my report on the 1990-91 accounts are set out at paragraphs 13 to 15.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORTS

Bank Reconciliations

13. In my 1990-91 Report I noted the Organization had problems in completing some bank reconciliations. I am pleased to record the progress made on reconciling the two Headquarters Travel Advance bank accounts during the 1992-93 biennium. However, due to problems at the implementation stage of the FINSYS/PERSYS system disbursements totalling nearly \$150,000 are incorrectly recorded in FAO's books of account. Now that these amounts have been clearly identified, I recommend that the Organization takes steps to correct the financial records.

Interest on Extra Budgetary Funds

14. The Financial Regulations of the Organization require interest or other income derived from any Trust or Special Fund to be credited to the fund to which it relates, unless otherwise specified in the terms of the Trust or Special fund Agreement.

15. Before the 1992-93 biennium the FAO paid interest on only four-fifths of the cash balance of each Trust Fund. The FAO regarded the remaining one fifth of cash balances as uninvested, to cover immediate expenditures. I noted in my 1990-91 Report that the FAO Finance Committee had discussed this issue in 1989, and concluded that the establishment of separate bank and investment accounts and the implementation of the FINSYS/PERSYS system would allow the Organization to establish a more satisfactory method for the distribution of interest earnings due to Trust Fund projects. These conditions had been met with the introduction of the FINSYS/PERSYS system in 1990. The FAO has now introduced an improved system of interest distribution which involves the distribution to the Trust Fund donors of interest on the basis of the full average cash balance of each Trust Fund project.

SUMMARY OF MAIN FINDINGS AND RECOMMENDATIONS ON THE ACCOUNTS FOR 1992-93 BIENNIUM

MANAGEMENT MATTERS

PROGRESS ON THE COMPUTERISED FINANCIAL AND PERSONNEL SYSTEMS (FINSYS/PERSYS)

General Conclusion

16. I welcome the progress the FAO has made in reducing backlogs; resolving system imbalances; improving the control environment; and generally developing FINSYS and PERSYS to meet FAO's needs (paragraphs 37 to 43).

On Suspense Account Balances

17. I note that the FAO has reduced balances in suspense accounts, in part through a clearance exercise performed in November 1993. I recommend that the FAO give priority to the clearance of remaining personnel-related suspense account balances, the identification of new computer edits, and the identification of errors arising from defective programming (paragraphs 44 to 47).

On System Development Standards

18. I note that the FAO has now adopted an interim version of its own System Development Standards applicable to future development of the FINSYS computer system. I welcome this step, and suggest that the Organization apply these standards to other systems being developed by the Organization (paragraphs 51 and 52).

On System Documentation

19. I note that the FAO has largely dealt with deficiencies in documentation identified in my 1990-91 Report on FINSYS. I consider it essential that the FAO continues to update this documentation (paragraphs 53 and 54).

On Disaster Recovery Procedures

20. The FAO has now formulated a Disaster Recovery Plan, and I recommend that it implements and test it as soon as possible; and finalises arrangements for providing emergency support and off-site data storage for key stand-alone computer applications (paragraphs 55 to 58).

On Proposals to Replace the FINSYS/PERSYS System

21. The Director-General has now placed proposals which include the option of the replacement of FINSYS before Governing Bodies. I recommend that any replacement system be developed with full documentation, adequate staff training, within a framework of strong project management, and that

information on costs incurred and targets achieved be regularly reported to Governing Bodies (paragraphs 66 and 67).

OPERATION OF FINANCIAL CONTROLS IN THE FIELD

General Conclusion

22. Around 25 per cent of all expenditure on the Field Programme of the FAO is managed by officers in the field, who have delegated authority from FAO headquarters to authorise and make payments. These officers controlled cash assets exceeding \$15 million at 31 December 1993. Despite the difficulties in maintaining tight control over operations undertaken in distant and sometimes poor and rural parts of the world, my staff found that there was, nonetheless, scope for improving compliance with controls and procedures in this important area (paragraphs 69 to 76).

On Monitoring of Expenditure

23. Effective budgetary monitoring, and regular comparisons between local and headquarters records of expenditure represents a key control which can detect errors at an early stage. I recommend that the FAO ensure that field staff regularly reconcile local records with budgetary outturn information provided by headquarters (paragraphs 77 to 79).

On Monitoring Unliquidated Obligations

24. Errors are particularly likely to be present in the records of unliquidated obligations. I recommend that the FAO extend the provision of reports on outstanding obligations to all field projects (paragraphs 80 and 81).

On Competitive Tendering

25. The use of competitive tendering and of competitive quotations should ensure that the FAO can demonstrate that goods and services have been purchased with due regard to economy. My staff found that many field offices and projects failed to maintain records of suppliers invited to provide quotations, or to document their comparison of quotations received. I recommend that the FAO require all field offices and projects to provide headquarters with a summary of quotations obtained each time they make a significant purchase (paragraphs 82 to 84).

On Advances to Governments

26. My staff found that advances made to governments by FAO field projects often remained outstanding for longer than 90 days, and were sometimes charged to project expenditure. I recommend that the FAO tighten rules governing advances of this kind (paragraphs 87 to 89).

On Use of Local Suspense Accounts

27. My staff found that some field offices recorded payments against suspense accounts where this was inappropriate, and that in most of the offices visited suspense account items remained uncleared well beyond the permitted limit of 90 days. I recommend that FAO stress to imprest holders their personal responsibility for these accounts, and give headquarters staff responsibility for monitoring clearance of suspense account items (paragraphs 90 to 98).

On Accounts Payable

28. FAO recognises that its practice of creating an accounts payable item to reflect headquarters' authorisations of field disbursements gives rise to a risk of duplicate expenditure transactions and invalid liabilities. It considers, however, that the FINSYS system constrains them from making an early change. I recommend, however, that FAO give high priority to reviewing this accounting practice (paragraphs 99 to 101).

On Revolving Funds

29. The accounting treatment of revolving funds differs between projects, and field staff do not always follow best practice. I recommend that FAO establish detailed guidance on control procedures for these funds, and ensure that they are periodically examined by the Organization's Internal Audit Division (paragraphs 102 to 107).

On Control of Physical Assets

30. To improve control and accountability for physical assets held in the field, I recommend that the FAO issue good practice guides to field staff, and re-examine procedures for the transfer, write off and disposal of assets (paragraphs 108 to 113).

On Cash Holdings

31. Many of the projects visited by my staff failed to comply fully with the FAO rules and guidance relating to cash holdings. I recommend that the FAO ensure that field staff comply fully with these rules, particularly concerning the level of cash held, the recording of cash transactions, and the periodic check of balances (paragraph 114 to 117).

On Financial Training and Guidance For Field Staff

32. Provision of relevant training and guidance is a key factor in ensuring that field expenditure is properly handled. I recommend that the FAO develop an overall financial training programme for field staff, and that the FAO review and consolidate existing guidance (paragraphs 118 to 124).

FINANCIAL MATTERS

On Unliquidated Obligations and Accounts Payable

33. My staff's testing of these two areas initially revealed an unacceptable level of invalid transactions and balances. Following a substantive review of major items in these areas, FAO made adjustments totalling \$6.6 million to unliquidated obligations and totalling \$0.8 million to accounts payable. I recommend that the FAO take steps to simplify the definition of an obligation; and that they provide staff with appropriate guidance on the proper accounting treatment to be followed (paragraphs 125 to 128).

On Currency Protection Measures

34. My staff examined the currency protection measures taken by the Organization during the biennium, and the impact of these measures on the reported budgetary and financial performance of the Organization. I recommend that the Organization reviews its accounting arrangements for exchange rate fluctuations, with a view to establishing simpler, and more transparent arrangements (paragraphs 129 to 136).

On United Nations Joint Staff Pension Fund

35. Although an actuarial valuation of the United Nations Joint Pension Fund showed an imbalance equivalent to 0.57 per cent of total pensionable remuneration as at 31 December 1990, the United Nations Pension Board did not recommend to the General Assembly that any additional contributions would be needed. Accordingly, FAO has not provided for a contingent liability to cover any shortfall in contributions (paragraphs 139 and 140).

On Inventories

36. Only 166 out of 282 Regular Programme offices had returned year end inventory reports by 28 June 1994, and only 173 out of 346 Trust Fund year end inventory reports had been returned. I recommend that the FAO take firm steps to ensure that all projects and offices provide the necessary year end inventory report on a timely basis (paragraphs 141 and 142).

DETAILED FINDINGS

MANAGEMENT MATTERS

PROGRESS ON THE COMPUTERISED FINANCIAL AND PERSONNEL SYSTEMS (FINSYS/PERSYS)

37. In my Report on FAO's 1990-91 Financial Statements I examined the FAO's implementation of the FINSYS/PERSYS computer system. This was a complex and ambitious computerisation project, designed and developed over a seven year period, aimed at improving and integrating financial and personnel systems. At the time I reported, the cost of development and implementations of this system had exceeded \$30 million.

38. The FAO had experienced serious problems following the implementation of this system. These included the build up of processing backlogs, a substantial increase in suspense account balances, and identification of fundamental accounting imbalances within the system. These problems were so serious and wide-ranging that I reported my concerns to the Director-General in an interim management letter in August 1991. In response, the Organization initiated emergency action and mounted an intensive exercise to restore the integrity of their financial records. I noted in my 1990-91 Report that, without the extraordinary efforts the Organization made in the latter months of 1991, it would not have been possible for me to have given the accounts an unqualified audit opinion.

39. The performance of the computerised financial accounting system of the FAO has continued to be central to my concerns during the 1992-93 biennium. I have followed closely the efforts of the FAO to deal with the immediate accounting problems identified in the 1990-91 biennium, the underlying short-comings in the control environment, and the areas of limited functionality within the FINSYS system. In so doing, I have drawn on information contained in the Secretariat's paper to the Finance Committee, which reported on the implementation of the recommendations in my 1990-91 Report.

Performance during 1992-93

40. The problems I considered to be most serious during the 1990-91 biennium, and on which I concentrated my comments in my 1990-91 report, related to the development of serious processing backlogs; the build-up of large suspense account balances; the generation of numerous system imbalances; and weaknesses in the overall control environment, such as the absence of a Disaster Recovery Plan, and the poor standard of system documentation. I have examined the attempt made by the Organization to deal with these issues, and am pleased to note that, while problems remain, significant progress has been made in each area.

Processing Backlogs

41. A major constraint upon the successful implementation of the final stages of the FINSYS/PERSYS system was the lack of sufficient computer hardware capacity. The system operated at around 90 per cent of capacity from the first few weeks of delivery, and this resulted in slow response times. This contributed greatly to the build-up of unprocessed items, including field imprest returns, claims for payment for travel, and the input of recruitment details.

42. The increase in computer processing capacity achieved in the second half of 1991 played an important role in the reduction of such processing delays. This was complemented by the establishment of new internal reporting arrangements, aimed at bringing the re-emergence of such problems to the early attention of management.

43. These measures have continued to be effective throughout the 1992-93 biennium, when delays in processing were significantly reduced. At the end of processing for the 1992-93 biennium 343 travel claims and 21 imprest returns remained outstanding, representing less than 0.01 per cent of the biennial totals, and having no material impact upon the accounts of the FAO.

Suspense Account Balances

44. A design feature of the FINSYS system is that it generates the appropriate accounting entries for most transactions, based on the detailed information input by staff. This approach means that the staff member does not need to understand and specify the exact account codes required for most transactions processed by FINSYS, and the aim is to increase control over the accounts by reducing the number of incorrect accounting transactions made. To achieve this, the system uses numerous specialised transaction types, and demands considerable detail in order to make appropriate posting decisions.

45. Account postings may be made to a suspense account when the information provided is incomplete, when the information contains incompatible values; or, in some instances, where there is an error in programmed instructions for the treatment of a particular type of transaction. In the early months of the 1990-91 biennium the removal of important computer edits in the Personnel area was a key factor in the dramatic increase in suspense account balances. This allowed entries to be made to the system on which information was incomplete.

46. The restoration of these, and of other computer edits, which prevent the entry of incomplete or incompatible information, has greatly reduced the volume of postings to suspense accounts. To reduce the balances on General Ledger codes for suspense accounts and Accounts Payable FAO carried out a special clearance exercise in November 1993, in which

the Finance Division sought the assistance of Internal Audit and the views of my own staff.

47. The FAO has continued its efforts to clear balances on such accounts, and I am pleased to note this has been largely successful. Remaining balances on suspense accounts do not have a material impact on the position reflected in the FAO's financial statements for the 1992-93 biennium. I encourage the FAO to establish effective procedures for the timely and routine clearance of all suspense account balances. I recommend that the FAO give priority to the clearance of remaining personnel-related suspense account balances; the identification of required new edits, and the investigation of errors arising from defective programming.

System Imbalances

48. During the 1990-91 biennium there were several instances of system imbalances, indicating the presence of serious programming errors which cast doubt on the integrity of data. Such problems were indicative of the inadequacies in system testing to which I referred in my 1990-91 report.

49. There have been fewer such instances during 1992-93, indicating that most of the more serious programming faults have been resolved. The system of assurance routines developed by the Computer and Finance Divisions has helped the FAO take prompt action when such imbalances arise. In addition, the Finance Division have taken steps to make detailed adjustments in areas where correction in 1990-91 had only been made at summary level. I welcome this action, which meets concerns I raised in my 1990-91 Report. I consider it essential that the FAO continues to take prompt action on all system imbalances.

Action Taken to Improve the Overall Control Environment

50. A key consideration in the design and management of computer systems and installations is the creation of routine controls to minimise the risk and the consequences of error. Issues to which I gave particular attention in my 1990-91 Report were the absence of appropriate System Development Standards; the lack of proper System Documentation; and the lack of a Disaster Recovery Plan.

System Development Standards

51. The FAO made use of the System Development Standards of a former contractor during the 1992-93 biennium and in April 1994 the FAO adopted an interim version of its own System Development Standards. I am pleased to note the progress made in this area, and I consider that these System Development Standards form a good basis for future computer projects. However I note that at present these standards are only applied to developments within the FINSYS/PERSYS area. In my view, such standards should be applicable to all computerised systems being developed within the Organization,

including systems for office automation, and those systems which directly support the operational activities of the Organization.

52. I note that, in recognition of the need for a more structured approach for the design, development, maintenance and support of future systems, FAO's Computer Division launched a project in late 1993 to identify the most appropriate System Development Life Cycle (SDLC) methodology for use in all the IT systems. An external consultant assessed FAO's needs and performed a review of the SDLC market and an evaluation of leading SDLCs. The Computer Division expects to begin to introduce the selected SDLC from the end of 1994.

System Documentation

53. Adequate system documentation is necessary in order to ensure that software amendments do not introduce new faults into the system; that the cause of reported problems is quickly identified; and that new programming staff can be readily incorporated into software support teams.

54. During 1993 the FAO made substantial efforts to tackle the deficiencies in documentation I had identified in my 1990-91 report. To avoid diverting software support staff from other priority work, the Organization used an outside contractor to deliver basic level system documentation, and also revised internal procedures to help ensure that documentation is kept up to date. I consider it essential that this discipline is retained if the FAO is to capitalize on the investment it has now made in this area.

Disaster Recovery Procedures

55. Disaster Recovery Procedures are necessary to ensure that in the event of an emergency, such as a fire in the Headquarters building, the impact on the operation and financial administration of the Organization is minimised. Typically, such procedures will include arrangements for off-site data storage and for the emergency movement of computer processing to a back-up site.

56. During the 1992-93 biennium the FAO engaged outside consultants to prepare a Disaster Recovery Plan, at a cost of \$300,000. This plan was substantively completed in early 1994 and appears to provide a sound basis for developing disaster recovery procedures.

57. However, I note that the plan only covers loss of the major computerised processing capacity. It therefore does not cover damage or loss to processing capacity elsewhere in the Organization, such as important parallel systems which deal with procurement and contributions, as well as many other specialised applications. I note that the Organization is currently considering options which will achieve this objective.

58. I welcome FAO's actions in producing a Disaster Recovery Plan and I recommend that the FAO implement and test the Plan as soon as possible; and finalise arrangements for providing emergency support and off-site data storage for key stand-alone computer applications.

Design and Functionality of FINSYS

59. In the course of the 1992-93 biennium the FAO commissioned a Functional Review of the FINSYS computer system. The review involved the use of outside consultants at a cost of \$230,000. Included within the terms of reference were two elements on which I had made specific recommendations in my 1990-91 report: a review of all outstanding requests for changes to the system and of recommendations from previous consultants' reports.

60. The Functional Review, together with the observations of FAO accounting staff and my own staff, indicate that there are several aspects of the design and functionality of FINSYS which fall significantly short of the Organization's requirements. In many instances these arose from poor specification at the design stage. The more significant shortcomings include areas of limited accounting functionality; over-ambitious update procedures; poor integration with budgetary systems; and the absence of a top-level management reporting facility. These factors were largely reflected in the conclusion of the Functional Review.

Limited Accounting Functionality

61. Several design features of the FINSYS system make processing relatively inflexible, and hinder the Organization in its efforts to achieve greater economy, and to streamline procedures. For example, an unusual feature of the FINSYS system is that many transactions are first recorded in the books of account when a transaction is authorised, rather than when a payment is made, or a legal obligation incurred. I recommended in my 1990-91 Report that the Organization revert to a conventional system in respect of travel advances. The FAO accepted this recommendation, but have so far been unable to implement it because of the cost of making such a change to the FINSYS system. The Organization has informed my staff that changes to the system may not be possible before 1995.

Integration with budgetary systems

62. FINSYS data is poorly integrated with the budgetary system. It is notable, for example, that the division of the General Ledger into "Fund Types", does not equate with the division of the budget into Chapters. In reviewing its policies and procedures, I recommend that the FAO examine the future scope for aligning financial and budgetary systems.

Absence of Top-level Management Information

63. The consultants commissioned by the FAO to perform a Functional Review of the FINSYS system concluded that "reporting from FINSYS has never produced the on-line management information which was envisaged when the system was being developed. The on-line enquiry system has been curtailed and reports produced are often voluminous, difficult to interpret and arrive too late to be useful to management". In general, FINSYS is well able to produce detailed listings of transactions, but is unable to provide useful summarised reports. It is thus particularly apparent that the production of top-level information is deficient. For example, the system is unable to provide, directly, a simple summary of the Organization's financial position.

Computer Update Arrangements

64. A feature of the FINSYS computer system is the access given to more than 500 users to make on-line entries to computer records. This use of on-line facilities places a heavy processing demand upon FAO's computer installation. In many areas, it is not clear that this level of sophistication is appropriate. I recommend that the FAO review the requirement for on-line update facilities in areas of routine processing, and the potential benefits of reverting to conventional batch processing in such areas.

65. The Organization has begun an internal review of financial policies and procedures, which has the objective of simplifying procedures. The problems encountered in the preparation of the 1992-93 financial statements indicate that strengthening control procedures of the Organization is a key pre-condition for a smooth transition to a new financial system.

66. The Director-General placed proposals before the 78th Session of the Finance Committee which included the option of replacing FINSYS, and enhancing or replacing PERSYS. These proposals were based in part on the recommendations of the external consultants engaged by FAO to perform a functional review of FINSYS, as well as on advice from senior FAO officers. The Committee agreed with the need to replace the existing systems. I note the care with which the FAO has approached a difficult and finely balanced decision.

67. My 1990-91 Report focussed on problems identified during the development and adoption of an implementation process for the FINSYS/PERSYS project. For this reason a decision to replace FINSYS does not mean that the recommendations of my 1990-91 Report will be any the less relevant to the Organization. I recommend that the FAO ensure that any replacement system is developed with full documentation, adequate staff training, and rigorous testing, both of systems and of data conversion, within a framework of strong project management.

68. In order to gain full advantage from any new system, I recommend that the Organization create an effective framework for financial monitoring of the project, and identify in advance achievable cost and performance targets. I further recommend that information on costs incurred and targets achieved be regularly reported to governing bodies.

THE OPERATION OF FINANCIAL CONTROLS IN THE FIELD

Introduction

69. Under its Field Programme, the FAO implements development strategies and provides technical assistance to governments and rural communities. The Field Programme includes some 2500 field projects operating at any one time in more than 100 countries. During the 1992-93 biennium, total expenditure on the Field Programme amounted to \$746 million. About 27 per cent of this expenditure was incurred directly in the field. Trust Fund donors provide more than half of the Field Programmes funding while around one third comes from the United Nations Development Programme and the United Nations Population Fund. The FAO Regular Programme Budget contributes about 10 per cent of Field Programme funding through the Technical Cooperation Programme.

70. The Organization maintains permanent Representation in 75 countries and has established 83 field offices to support the work of Representatives. During the 1992-93 biennium, total expenditure on field offices amounted to \$63.9 million, which was met from FAO's Regular Programme Budget. By value, nearly 38 per cent of field office expenditure was made at local level.

Table 1: FAO Field Activities and Expenditure

Field Programme Element	Disbursement in the Field		Headquarters Managed Expenditure 1992-93 \$m	Total Expenditure 1992-93 \$m
	Through Imprest Accounts \$m	Through Inter-Office Vouchers \$m		
FAO Representatives	12.3	12.0	39.6	63.9
Technical Cooperation Programme	17.1	16.9	39.5	73.5
Trust Funds, except UNFPA	80.1	7.9	327.4	415.4
UNFPA	4.2	0.7	4.0	8.9
UNDP	39.5	34.6	174.1	248.2
TOTAL	153.2	72.1	584.6	809.9

71. FAO headquarters exercise overall financial control over all field activities, which are governed by FAO's common financial rules and procedures. The Organization has also

developed additional financial and accounting guides which are issued to field staff as an aid to proper financial management and control in local situations.

72. FAO headquarters are responsible for setting annual budgets for local expenditure on each project and in each field office. Field offices and projects report and substantiate all such expenditure to headquarters through imprest account returns.

Scope of the Examination

73. The objectives of my staff's examination were to examine how FAO exercises financial control over field activities; and to identify ways in which controls and their cost-effectiveness could be improved.

74. The examination focussed on the operation of controls in the following three main areas:

- (a) Control of Expenditure: how expenditure and unliquidated obligations are monitored; competitive tendering arrangements; control of vehicle costs; and advances to recipient governments.
- (b) Accounting for Expenditure: how field offices are funded through imprests; arrangements for reviewing imprest accounts; local suspense accounts; accounts payable; and revolving funds.
- (c) Control of Assets: how physical assets and cash holdings are controlled and protected.

75. In addition, my staff examined the arrangements for training FAO field staff and the quality of instructions and guidance issued.

76. In the course of this examination, my staff visited 31 FAO Projects and offices, located in all the geographical regions in which the FAO operates. A summary of these offices and projects is provided in Table 2.

Table 2: External Audit Visits to the Field in 1992-93

FIELD PROGRAMME ELEMENTS	CENTRAL AND SOUTH AMERICA	AFRICA	ASIA	TOTAL
FAO Representatives	2	4	1	7
Trust Fund Projects	6	6	2	14
UNDP Projects	1	4	5	10
Total	9	14	8	31

Expenditure Control

Monitoring of Expenditure

77. FAO headquarters provides specific financial information on a monthly basis to each field office and field project to facilitate monitoring of the budgetary position. This information includes payments-to-date and committed expenditure against each budget heading, both in summary and detailed formats. The designated responsible field staff should check the information provided by headquarters to ensure that it matches local records; to identify areas where expenditure could exceed or fall below the approved budget or allotment; and to seek budgetary revision in good time.

78. All field offices and projects visited by my staff maintained financial records showing local expenditure against each component of the approved budget or allotment. However, only seven of the 31 offices and projects reconciled the local records to the budgetary outturn information provided by headquarters each month; or sought explanations from headquarters for any differences apparent on a comparison of the two sets of information.

79. My staff identified a number of errors both in the headquarters and local records which could have been detected by field office and project staff, had an effective reconciliation been performed. These included instances where budgets had not been charged with expenditure reported in previous imprest returns, and instances where expenditure made by a field office as an agent on behalf of another budget holder had been charged against the agent's own allocation. I recommend that FAO ensure that field staff carry out timely and regular reconciliations of their records with the budgetary outturn information provided by headquarters, so as to minimise the risk of material errors remaining undetected.

Monitoring of Unliquidated Obligations

80. Where the Organization has entered into a legal commitment to pay, for example, by issuing a purchase order, the amount involved must be recorded as an expenditure obligation. On payment, the commitment is cancelled and the cash disbursement is recorded as expenditure. Headquarters provides each field office with a supplementary report of outstanding commitments on a monthly basis. Field offices are required to review the report and draw attention to any inaccuracies identified. This information is not provided to field projects. Biennium end totals of outstanding commitments relating to FAO's field programme are given in Table 3.

Table 3: Biennium end Unliquidated Obligations by Value and as Percentage of Total Expenditure

FIELD PROGRAMME ELEMENTS	Unliquidated Obligations at 31.12.93 (\$m)	Unliquidated Obligations as a Percentage of total Expenditure
FAO Representatives	0.7	1
Technical Cooperation Programme	4.5	6
Trust Funds, except UNFPA	24.9	6
UNFPA	0.3	3
UNDP	5.3	2
Total	35.7	//////

81. At the field offices and projects visited by my staff, monitoring of unliquidated obligations varied in quality. At some offices my staff identified instances where, although final payment had been made, the transactions concerned continued to be recorded as unliquidated obligations. Consequently, the budgetary outturn, which reflects both payments and obligations, was overstated. My staff's examination of unliquidated obligations included 20 items relating to field operations. Fifteen of these, or three-quarters, proved to be invalid. As a result of this very high level of error, FAO took prompt action to review all significant unliquidated obligations and make appropriate adjustments (see paragraphs 125 and 126). To help avoid a problem of this magnitude recurring, I recommend that FAO extend the provision of unliquidated obligation reports to all field projects.

Competitive Tendering

82. FAO requires that competitive quotations be obtained for all purchases where it is reasonable to do so. More specifically, competitive tenders must be sought for all purchases costing over five thousand US dollars, with certain exceptions on technical grounds for which approval must be obtained. The FAO estimates that in total such purchases made in the field amounted to \$119.5 million in 1992-93. Field staff are required to maintain clear records which explain the process applied and justify the selection of supplier for all procurement actions. With certain exceptions, purchases exceeding twenty five thousand US dollars can only be made by headquarters procurement staff.

83. All field offices and projects visited by my staff complied with the requirement to obtain competitive bids for purchases over five thousand dollars. My staff found that, in general, FAO personnel at field offices and projects visited had attempted to obtain quotations for purchases costing under five thousand US dollars. However many offices and projects failed to maintain records of which suppliers

had been requested to provide quotations. Only two out of the 31 offices and projects visited used the correct FAO form to record the quotations received and the decision on the selection of supplier. My staff found that field offices and projects commonly only retained records for the supplier eventually chosen. I recommend that the FAO require all field offices and projects to provide headquarters with a summary of quotations obtained for each significant purchase.

84. My staff noted that two project offices had introduced additional safeguards in their procurement procedures by segregating the responsibility for the initiation of procurement action; for approval of a purchase request and for obtaining quotations; selecting the supplier; and placing the order. These project offices contacted the FAO Representatives' office and staff at other projects within the countries concerned to obtain information aimed at widening the range of suppliers from whom quotations can be requested. I recommend that FAO encourage all projects to adopt such practices whenever possible.

Vehicle Costs

85. For many field offices and projects, vehicle costs represent a significant element of the local expenditure. The FAO estimates that in total the cost of purchases of vehicles for field offices and projects amounted to \$17.4 million in 1992-93. The related costs of fuel and maintenance formed the largest category of financial transactions handled at local level for more than half of the field offices and projects visited by my staff in 1992 and 1993. Guidance developed by FAO provides a good framework for the control of these costs. This requires field offices and projects to ensure that each vehicle carries a log book which records all journeys made, their purpose and distance; all intakes of fuel; and all repairs performed. The guidance also requires maintenance of summary records of costs relating to fuel, oil, maintenance and repair costs relating to each vehicle. Field offices and projects are urged to use this information to check on running costs and to identify irregularities.

86. My staff found that, with very few exceptions, field offices and projects visited had maintained log book records in sufficient detail. However, only a small number of projects and offices produced regular information on the average cost of fuel and oil consumption per vehicle. Only one project maintained a useful analysis of trends on maintenance and repair costs relating to each vehicle. I recommend that FAO stress to Representatives and Chief Project Officers the importance of following the guidance in order to obtain, and demonstrate, maximum economy in the operation of vehicles.

Advances to Recipient Governments

87. The cost of field projects is normally shared between the donors and the recipient governments. FAO project formulation guidance suggests that recipient governments should normally be prepared to make an agreed contribution to total project costs. Where necessary, FAO may provide an advance of funds from the project imprest to cover costs which would eventually be met by the recipient government. Advances of this nature should be recovered from the recipient government within 90 days.

88. My staff found that many of the field projects examined made considerable use of the facility to advance funds to recipient governments, but in some instances funds were advanced for purposes other than those allowed under FAO rules, for example to meet salary costs of recipient government staff. In addition, such advances very often remained outstanding for more than 90 days, in some instances for over a year. My staff also identified instances where costs which, according to the original project budget, should have been met by the recipient governments but instead were being charged against donors' funds.

89. I recommend that FAO review the guidance on the frequency of such advances out of project funds and the terms on which they can be made. I also recommend that the FAO consider whether, in certain circumstances, they should be able to charge interest on advances remaining outstanding for more than 90 days and placing a bar on further advances whilst an earlier advance remains outstanding.

Accounting for Expenditure

Funding Through Imprests

90. FAO Representatives and authorised field project officers may make payments locally for such items as supplies, equipment and services purchased locally, casual labour and short-term staff costs and miscellaneous local costs. To facilitate local payments, FAO headquarters provide an imprest to each Representative and to authorised field project Officers-in-Charge of projects. An imprest represents money for which the custodian is personally accountable and which may be spent on approved activities, within approved budget limits, in accordance with FAO's financial rules and procedures. During the course of the 1992-93 biennium, expenditure made through these Imprest Accounts amounted to more than \$150 million. At 31 December 1993 the cash balance in these Imprest Accounts exceeded \$15 million.

Imprest Account Returns

91. Each imprest holder is required to account for the imprest placed under his or her responsibility. Imprest account returns from offices and projects with expenditure of

less than \$5000 per month may be rendered quarterly to the FAO headquarters; the remainder are submitted monthly. The returns are required to be dispatched to headquarters not later than the fifth day following the period to which they relate. They should include vouchers, invoices, receipts and explanatory notes supporting individual transactions recorded in the account. Imprest account returns are scrutinised at headquarters, and details in the returns are then entered into the Organization's main accounting records. There are over twenty thousand monthly or quarterly imprest returns covering some one million financial transactions, to be examined and processed by FAO headquarter's staff each biennium. All field offices and projects visited by my staff submitted imprest returns to headquarters on a timely basis.

Local Suspense Accounts

92. Imprest holders are often required to make payments which cannot be brought to account immediately as expenditure, because the supporting documentation is incomplete or a subsequent reimbursement of the amount paid is expected. For example, funds advanced to a staff member in the field for travel cannot be brought to account as expenditure until the travel has taken place and the staff member concerned provides details of costs incurred through a travel claim.

93. FAO Financial Rules provide that local payments of this nature should be recorded initially in a suspense account, known as the Locally Recoverable Items Account. These suspense account items were valued at more than \$845,000 at the end of the 1992-93 biennium. Headquarters staff scrutinising the imprest returns also use the suspense account to record expenditure items which lack the necessary supporting documentation, such as original invoices. Suspense Account items are required to be cleared within 90 days. The summary findings from my staff's visits to the field are set out in Table 4. This shows that the objective of clearance within 90 days was often not met, and that many items remained outstanding for more than one year.

94. Imprest holders are required to maintain a local register of suspense account items and to forward a summary report of such items with each imprest account return to headquarters. In examining imprest returns, my staff noted that some field offices and projects recorded payments as suspense account items when they should have been charged immediately to expenditure. For example, field staff at one project visited had recorded as suspense account items payments for valid expenditure, amounting to more than \$10,000, made by one project on behalf of another in the same country. Headquarters staff brought this to account as expenditure against the project concerned, well after the 90 day limit set for the clearance of suspense account items.

95. Misclassification of this nature impairs effective budgetary control at project level, entails additional work for responsible headquarters staff and introduces financial errors in the records underlying the Organization's published Financial Statements. I recommend that FAO remind imprest holders to exercise greater care in determining the justification for recording payments as suspense account items.

Table 4: Locally Recoverable Items: Summary Findings from Field Examination of Imprest Accounts

Field, Programme Element	Imprest Accounts Examined	Discrepancies between HQ and Local Records	Outstanding Items requiring Corrective action	Imprest Accounts on which one or more items remaining outstanding for more than			
				90 days	6 months	12 months	2 years
FAO Representatives	7	7	6	7	7	6	5
Trust Funds Projects	14	5	4	7	7	2	2
UNDP Projects	10	1	3	5	1	-	-
Total	31	13	13	19	15	8	7

96. My staff found that around one in ten of the field offices and projects which they visited produced suspense account summary reports only for items on which there had been some movement, such as repayment of an advance or payment of a further advance. The risk associated with incomplete reporting of this nature is that clearance of old, inactive items in the field suspense account register could be overlooked, leading to an understatement of receipts, expenditure, or both in the Organization's main accounting records. I therefore recommend that FAO remind all imprest holders to forward comprehensive reports of suspense account items within the monthly imprest returns.

97. My staff examined those items which FAO headquarters staff had recorded in suspense accounts because they lacked the necessary supporting documentation. In many of the cases examined, my staff found no evidence that the imprest holders concerned had been requested to provide the missing documentation. Such instances explain many of the discrepancies between headquarters and field records set out in Table 4, including five of the seven items noted as outstanding for more than two years.

98. The screening of field imprest returns at headquarters represents a strong financial control, but for this to be effective, headquarters staff need to follow up promptly any queries arising on suspense items with the imprest holders. If these items are allowed to remain in the suspense account beyond the end of the financial period, they affect the accuracy of the actual expenditure and receipts disclosed in the Organization's financial statements. I recommend that FAO stress to imprest holders their personal and primary

responsibility for control of these suspense accounts; give Headquarters staff who process the imprest accounts direct responsibility for monitoring the clearance of suspense account items; and require staff processing imprest returns to submit regular reports to unit supervisors on all suspense items not cleared within 90 days.

Accounts Payable

99. FAO headquarters may authorise a disbursement to be made in the field through a field office or field project imprest account when, for example, a contract payment or a travel claim is to be settled in the country of origin, and in a local currency. In such instances, the FAO charge the authorised disbursement to expenditure; and create an account payable liability, which should be cleared on receipt of a report from the field that the authorised payment has been made. FAO recognises that this gives rise to a risk of duplicate expenditure and invalid liabilities. It considers, however, that it is constrained by the FINSYS system, which would need substantial amendment to change the procedure. I recommend, however, that the FAO give high priority to reviewing this accounting practice. At the end of the 1992-93 biennium, recorded outstanding accounts payable for disbursement in the field amounted to \$5.7 million.

100. My staff examined a sample of 30 accounts payable recorded for field disbursements drawn from year end balances for Trust Fund and UNDP activities. The results of this test examination showed that 17 of these items, or more than 50 per cent, were invalid. These findings contributed to FAO's decision to review accounts payable and make adjustments to the value of \$835,000, as described in paragraphs 127 and 128.

101. I consider that the creation of accounts payable as a means of authorising a payment in the field is an unnecessary stage in the accounting process. If field or project office imprest returns fail to match payments with their underlying disbursement authorisations, there is a risk of duplicate expenditure entries and invalid accounts payable remaining undetected. I recommend that FAO review the continued need for the accounts payable stage in the accounting processes relating to field activities. In the interim I recommend that the Organization ensure that staff regularly check the validity of accounts payable items over three months old.

Revolving Funds

102. A key problem facing poor rural populations in many parts of the world is a lack of access to credit for purchasing items such as improved seeds, fertiliser and equipment. A number of FAO field projects have sought to tackle this constraint through the provision of "revolving funds". Members of poor rural communities can borrow from the fund, provided initially by the project donor, and repay over an appropriate period. The loans, normally tied to

specific investments, are usually at low interest rates, and sometimes no interest is charged. The FAO estimates that its field projects provided funding of \$3.0 million to revolving funds during the 1992-93 biennium.

103. Administration of the funds often involves groups drawn from the communities involved. FAO's guidance to its field project staff is that, wherever possible, revolving funds should be managed by independent bodies with expertise in the field, such as Development Banks and local non-government organizations. FAO takes a direct role in running such funds only when no other options are available.

104. My staff examined two projects, in which FAO staff were necessarily directly involved in the management of the revolving fund. They found considerable variation in procedures followed and in the accounting treatment adopted by the FAO.

105. For example, in the first project, the revolving fund balance amounting to nearly 200,000 US dollars was kept in local bank accounts in the name of the FAO Chief Technical Adviser for the project. The loan repayments were often received in cash at various sub-offices of the project, and my staff noted that there was no standard receipt voucher to acknowledge these loan repayments.

106. In another project, the revolving fund balance was held within FAO's local imprest bank account. Loans made from the fund and repayments to it were reported to headquarters through the suspense account summary report accompanying the monthly imprest returns. At headquarters, however, they were incorrectly re-classified as project expenditure and receipts.

107. Where, due to local circumstances, FAO assumes direct responsibility for the management and custody of revolving funds, it is important that proper discharge of this responsibility be demonstrated through sound financial control and accounting arrangements. I recommend that FAO establish detailed guidance as an aid for both field and headquarters staff in the management and accounting of such funds. I also recommend that such revolving funds should be subject to periodic examination by the Organization's Internal Audit Division.

Control of Assets

Physical Assets

108. A central inventory of all non-expendable equipment (Regular Programme, Trust Funds and United Nations Development Programme) is maintained at the FAO headquarters. At 31 December 1993 the total inventory of the FAO was valued at \$186 million. Items are recorded at cost price and charged to the budget of the biennium in which they are purchased. The value of non-expendable equipment is not

included in the Organization's Assets and Liabilities Statements, although it is disclosed in a note to the Regular Programme Financial Statements. The Financial Regulations of the FAO require the Director-General to establish detailed financial rules and procedures to ensure the effective custody of the physical assets of the Organization. The essential components of FAO's system are:

- (a) a central inventory of assets is maintained by procurement staff at the FAO headquarters. The inventory is updated regularly to reflect new acquisitions and any disposals of assets reported by field offices, projects and headquarters divisions;
- (b) each field office, project and headquarters division is required to maintain a local inventory of all assets held; and to forward a monthly report on new purchases and any disposal of assets;
- (c) an annual verification exercise, in which each field office, project and headquarters division is sent a list of assets recorded in the central inventory as held at that location. The designated responsible staff member at each location is required to verify that the assets involved are correctly recorded, are in the possession of FAO, and are in working condition.

109. The sample examination carried out by my staff showed that, in general, controls over FAO's physical assets are operating satisfactorily. The Organization's staff take seriously their responsibilities for the custody of assets, and my staff found few instances in which items owned by the Organization could not be traced.

110. However the standard of inventory control procedures followed by FAO offices and projects varies considerably. Of those field offices and projects visited by my staff, one project based in West Africa had established very good procedures for controlling physical assets. This project maintained an inventory record showing the location of each asset, and the name of the staff member responsible for the asset. The project's Chief Technical Adviser arranged regular verification of the existence and the condition of assets, and for documentation of these checks within the local inventory record. The project was able to deal with the annual inventory verification reports from headquarters quickly and efficiently, within one or two weeks of receipt.

111. Such high standards were not commonplace, however, and my staff found that at some projects no inventory control procedures had been applied, and the headquarters' annual inventory verification reports had not been examined, or had been returned to headquarters up to a year late. My staff identified several assets which were included in the central inventory, but which were no longer in use, or no longer operational. They also noted several cases where assets held

by a project or an office had not been included in the central inventory record. In general such instances arose because:

- (a) the field offices and projects concerned had failed to report to headquarters details of assets purchased locally; or
- (b) assets obtained by way of transfer from another office or project had not been reported to headquarters.

112. My staff's examination of the central inventory record showed that, when assets are transferred between locations, the FAO deletes them from the record relating to the office or project and adds them to the receiving locations record at nil value. Consequently, the value of these items is not reflected in the total value of FAO's assets disclosed in a note to the Regular Programme Financial Statements.

113. I note that FAO is undertaking a review of inventory control and accounting procedures. I recommend that in this review, FAO consider the need for:

- (a) effective follow up procedures for offices failing to respond timeously to the annual verification of the central inventory;
- (b) the need to mount the annual verification exercise in good time for the results to be included in FAO's final accounts;
- (c) dissemination of good practice guides to local offices;
- (d) assets transferred between projects and offices to be properly recorded in the central inventory at their original purchase cost and similarly valued in the inventory record of locations to which they are transferred;
- (e) assets which are no longer usable to be formally written-off; and
- (f) assets which are no longer required to be disposed of promptly.

The Organization has told me that it is now considering each of these recommendations, and that new guidance on the disposal of unused and surplus items is to be issued in the near future.

Cash Holdings

114. Each field office and project visited by my staff maintained a cash holding. A number of projects, supporting activities in dispersed areas, held cash at more than one

location. For projects operating in areas where banking facilities are either scarce or non-existent, use of cash becomes extensive and unavoidable. It is therefore important that funds held in cash are properly controlled. The FAO estimates that cash expenditure made in the field during 1992-93 amounted to \$8.9 million. This expenditure is reported to headquarters through the Imprest Returns (see paragraph 91).

115. FAO Financial Rules and Guidance provide a sound basis for the control of such funds, requiring cash holdings at any one location to be maintained at not more than the local currency equivalent of \$500; and, where it proves necessary to hold cash in excess of this amount on a continuing basis, to obtain the authorisation of the Chief, Accounts Branch, at the FAO headquarters. The Guidance also stipulates that cash should be kept in a metal safe, or metal container; and that the imprest holder should carry out periodic checks of the cash balance.

116. Many of the projects visited by my staff did not comply with the Financial Rules and Guidance relating to cash holdings. Table 5 shows that:

- (a) nine of the 31 projects and field offices visited maintained cash holdings in excess of \$500 over long periods, without the express agreement of the FAO headquarters. In particular, three offices maintained cash balances, exceeding US\$1500, without the necessary authorisation by headquarters;
- (b) fifteen projects and offices did not maintain a register to record cash transactions, as specified in FAO guidance to imprest holders;
- (c) there was no evidence of periodic check of cash balances by imprest holders at twenty-five projects and offices;
- (d) the majority of imprest holders authorised replenishment of cash holdings without signing and approving all cash payments and receipts vouchers, as required by the FAO Financial Rules.

Table 5: Compliance with FAO Regulations on Cash Holdings

Region	Imprest Accounts Examined	Balance in Excess of \$500	Failure to Keep a Cash Book	Failure to record evidence/periodic checks on cash balance
FAO Representatives	7	2	4	5
Trust Fund Projects, including UNFPA	14	5	8	12
UNDP Projects	10	2	3	8
Total	31	9	15	25

117. The current level of cash payments does not represent a material element of FAO's overall expenditure. Nevertheless, in my view, failure to comply fully with the Rules and Guidance concerning cash management and accounting hampers the efficiency of project administration and introduces the risk of misappropriation of cash assets. I recommend that the FAO ensure field staff comply fully with the rules and guidance relating to cash management.

General

Financial Training For Field Staff

118. Before taking up post, FAO Representatives and Officers in charge of projects are given briefings at FAO headquarters on various subjects including the administration of imprests and accounting for those funds. In general, these staff members devote much of their time on representational and technical duties, and are not involved directly in the day to day running of imprest accounts. This task is usually assigned to field administrative staff.

119. Financial training for field administrative staff is provided, on site, by the headquarters division responsible for the office or the project and for the imprest account returns from that location. Four headquarters divisions are involved - the Operating Divisions dealing with Agriculture, Forestry and Fishery projects, and Finance, dealing with the FAO Representatives and other projects.

120. Each of these divisions is therefore involved in providing financial training to field administrative staff dealing with imprest accounts. Budgetary constraints and the geographic spread of each Division's work, means that the number of locations covered is inevitably limited. Where practicable, the Divisions' staff undertake training in the field in conjunction with other duty travel. However my staff noted that the FAO does not coordinate the training activities of the different Divisions.

121. The field administrative staff at the majority of locations visited by my staff had not received any financial training since the introduction of the FINSYS computer system in 1990-91. This system has changed considerably the format in which imprest account and budget information is communicated to the field. The majority of field administrative personnel interviewed by my staff expressed the view that the new format statements were difficult to understand; and that without some form of training, they could not be confident that they were monitoring properly the imprest account and the budgetary position.

122. I note that during the 1992-93 biennium all headquarters divisions began to expand their training activities. I welcome this development. To maximise the return from expenditure incurred on this activity, I recommend that FAO develop an overall financial training programme for field staff, based on needs identified by each Division.

Accounting Instructions and Guidance

123. My staff found that the FAO Manual Sections relating to imprest holding and accounting have not been fully reviewed or updated since 1985. As a consequence, the Manual does not reflect the introduction of the FINSYS computer system in 1990, which has had a significant impact on field officers' role. My staff found that supplementary information is variously provided within Administrative Circulars, Field Programme Circulars, Mission Memoranda, Financial Procedures, Financial Notes and Circulars issued by headquarters divisions. They noted that the existence of so many sources of instructions and guidance makes it difficult for field administrative staff to ensure that they are always complying with current requirements.

124. This fragmented arrangement for communicating instructions and guidance impairs efficiency and increases the risk that financial errors will occur. I recommend that FAO review and update the Manual sections dealing with imprest holding and accounting; and seek to consolidate within the Manual, instructions and guidance currently contained in other circulars and notes. Ideally, such a revised Manual section would provide field officers with a complete set of guidance on the financial operations for which they are responsible. I also recommend that when instructions and guidance in the Manual need to be revised, replaced or cancelled, the Organization communicate the new information to field staff through a single series of field circulars.

FINANCIAL MATTERS

Unliquidated Obligations and Accounts Payable

125. My examination of FAO accounts, as initially submitted for audit, revealed two areas where FAO needed to make significant adjustments. The areas were unliquidated obligations and accounts payable. In each of these areas my staff's initial test examination identified instances where the recorded liability was no longer valid. The invalid liabilities affected four Financial Statements: the FAO Regular Programme, the FAO Statement of Trust Funds, the FAO United Nations Development Programme Status of Funds Statement and the FAO United Nations Population Fund Status of Funds' Statement.

126. Unliquidated obligations represent prospective liabilities arising, for example, from binding contracts or purchase orders issued. My staff's initial examination of a sample of 83 randomly selected unliquidated obligations showed that over one third of the items were either invalid or incorrectly valued. As a result, FAO reviewed the majority of unliquidated obligations by value, and identified invalid liabilities valued at \$1 million in the Regular Programme; \$3.4 million in the Trust Fund Statement; \$3.1 million in the UNDP Status of Funds Statement, and \$66,000 in the UNFPA Status of Funds Statement. The FAO has made appropriate adjustments to these Financial Statements.

127. Accounts payable represent payments which have been approved and charged to expenditure but where disbursement has not been completed. My staff's initial examination of a sample of 60 randomly selected accounts payable balances showed that 24 of the items were invalid or incorrectly valued. FAO's subsequent review of the accounts payable balances identified invalid items of \$170,000 on the Regular Programme, \$440,000 on the Trust Funds Statement and \$225,000 on the FAO/UNDP Status of Funds Statement. The FAO has classified these as deferred credits on the relevant balance sheet.

128. An analysis of the invalid liabilities indicated that they arose because of an incomplete understanding on the part of some staff as to when an obligation becomes chargeable to expenditure; and a slowness to cancel those obligations which are no longer fully required. In part this problem arose because different accounting definitions of an outstanding obligation apply to the FAO's Regular Programme and to the extra-budgetary activities. I recommend that the FAO take steps to simplify the definition of an obligation; and that they provide staff with appropriate guidance on the proper accounting treatment to be followed.

Currency Protection Measures

129. The Financial Regulations of the FAO state that the budget and the financial statements of the FAO will be expressed in US dollars, and that member nations will make contributions in Dollars, Lira or their own currencies where these are freely convertible. However, the FAO's expenditure involves more than one hundred currencies, making the Organization vulnerable to exchange rate movements. In particular, each biennium the Organization spends more than 50 per cent of the Regular Programme Budget in Italian Lira largely in the payment of salaries.

130. In approving the Programme of Work and Budget, the FAO Conference adopt a budget exchange rate between the US dollar and the Italian Lira, normally the exchange rate prevailing on the day of the Conference decision on the Programme of Work and Budget. The actual Dollar/Lira exchange rate secured by the Organization when purchasing Lira therefore has a major impact on the ability of the Organization to fund the approved Programme of Work and Budget.

131. Following a significant appreciation of the Lira against the US dollar in 1990, the Organization entered into forward purchase contracts to provide some protection against the effects of further adverse currency movements on the cost of its Lira requirement.

132. The FAO continued with the forward purchase arrangement during the 1992-93 biennium. Immediately following the FAO Conference approval of the Programme of Work and Budget at a budget exchange rate of Lira 1210 to US\$1, the Organization entered into forward purchase contracts to obtain their Lira requirement at an average rate of Lira 1278 to US\$1. These arrangements were supported by the FAO Finance Committee in May 1992. The forward purchase contracts ensured that the Organization had additional flexibility in meeting the approved Programme of Work and Budget.

133. During the 1992-93 biennium, the US dollar appreciated against most currencies utilised by the FAO, and to a significant degree in relation to the Italian Lira. The average Italian Lira/US dollar UN operational rate of exchange for the biennium was Lira 1388 to US\$1. As a result, an accounting loss of \$24.7 million is reflected within the financial statements of the FAO arising from the difference between the UN operational rate of exchange and the rate at which the forward purchase contracts had been established. This accounting loss was recorded within the Special Reserve Account. For 1992-93 the Special Reserve Account also recorded accounting gains totalling \$28.9 million, arising from the payment of staff salaries in Lira. In accordance with normal practice, these costs are reported at the budget rate of exchange rather than the actual rate.

134. In addition to these losses and gains on exchange, favourable exchange rates may provide the Organization with additional purchasing power. My staff have calculated that for the 1992-93 biennium, the extra purchasing power of the approved budget which accrued to the Organization through these favourable exchange rates amounted to nearly \$20 million. This represents the reduction in the dollar cost to the Budget of non-salary Lira expenditure. Unlike the variance on staff costs, which was transferred to the Special Reserve Account, this additional purchasing power remained at the disposal of the Organization.

135. During 1992-93 FAO obtained Finance Committee approval to draw down \$18 million from the Special Reserve Account to meet unbudgeted staff costs. In the event the Organization only drew down \$14 million to meet these cost increases.

136. Because of the significant impact exchange rates may have on an international agency such as FAO, I recommend that the Organization review its arrangements for protecting itself against exchange rate fluctuations, and suggest in particular that it consider ways in which it might align the budget rate of exchange with the actual rate secured through the forward purchasing contracts; and in turn report expenditure at the same rate. Such measures would remove the need to draw on the Special Reserve Account to make good fluctuations in the Lira/Dollar rate of exchange. The Organization would need to draw upon the Special Reserve Account solely to meet unbudgeted inflationary cost increases. This concept of setting the budget rate would only be applicable in those biennia where the Organization adopted forward purchasing as its means of protection against currency fluctuation. In addition, the Organization has informed me that the present limitations of the computerised accounting system would prevent implementation of the recording of expenditure related to non-staff costs at the budget rate of exchange, because this would require extensive programming changes at a time when consideration is being given to implementing a new system.

Treasury Operations

137. The FAO Treasury controlled funds amounting to nearly \$700 million at 31 December 1993, held in bank accounts and investments administered from FAO Headquarters. The FAO holds these funds on behalf of the World Food Programme (WFP), Trust Fund and United Nations Development Programme (UNDP) projects, as well as the Regular Programme. In addition the FAO held almost \$15 million in more than one thousand field bank accounts, spread throughout the world. Details of these accounts are given in Table 6 below.

Table 6: Cash Balances by Type and Source of Funds as at 31 December 1993

	Headquarters		Field		Total	
	No. of Bank Accounts **	Balance \$m	No. of Bank Accounts	Balance \$m	No. of Bank Accounts **	Balance \$m
Regular Programme	33	48.9	274	9.5	307	58.4
Trust Funds	35	192.7	346	3.1	381	195.7
UNDP	62	(1.8)	536	2.2	598	0.4
WFP	26	460.1	*	*	26	460.1
	156	699.9	1156	14.8	1312	714.7
* WFP field bank accounts are not administered by the FAO.						
** Includes fixed term investment Accounts.						

138. In my report on the 1990-91 biennium I noted that there were a large number of bank accounts which were rarely used. In the 1992-93 biennium the number of dormant accounts has increased and once more some banks announced to the FAO that they had closed accounts due to lack of activity. I note that in some instances the Organization is paying bank charges on these unused bank accounts. I recommend that the Organization review its bank accounts and close all those for which no activity has been recorded for over 18 months.

United Nations Joint Staff Pension Fund

139. FAO provides for the pension arrangements of its staff through participation in the United Nations Joint Staff Pension Fund. The Fund is supervised by the United Nations Pension Board who in 1990 commissioned an actuarial valuation of the Fund's assets and liabilities. The results of this valuation were reported to and discussed by the Fifth Committee of the United Nations General Assembly in 1992.

140. The Pension Board told the General Assembly that the results of the actuarial valuation of the Fund showed that at 31 December 1990 the Fund had an imbalance equivalent to 0.57 per cent of total pensionable remuneration, reduced from 3.71 per cent as at 31 December 1988. The Pension Board did not recommend to the General Assembly that any additional contributions would be needed to cover the imbalance. Accordingly, FAO did not consider that a provision for a contingent liability needed to be made in its Financial Statements.

Inventory Control System

141. I have examined, with satisfactory results, the inventory of non-expendable Regular Programme equipment at the FAO Headquarters. My staff checked procurement,

inspected assets in the course of field visits and examined losses. At 31 December 1993, the inventory was valued at \$40.7 million (\$41.2 million at the end of 1991) with a further \$59.5 million (\$81.8 million at the end of 1991) in Trust Funds.

142. In my 1990-91 report, I noted Regular Programme Units had an improved return of year end inventory reports (79% in 1990). My staff noted that only 166 (59%) of 282 distributed 1993 year end Regular Programme inventory reports had been returned and checked by 28 June 1994. Trust Fund projects returned and checked 173 (50%) of 346. I recommend that the Organization continue to hasten Field Office returns of inventory reports.

Losses and Writes-off

143. I have examined, with satisfactory results, details of compensation payments, ex-gratia payments, losses and writes-off to the value of \$2,255,178 submitted to me by the Director-General in accordance with the Financial Regulations. I am satisfied with the information and explanations which I have obtained about these cases and I have no observations to make. No cases of fraud or presumptive fraud have been reported to me.

144. My staff noted that in some instances write-off had been necessary because vehicles had been insured by policies denominated in local currencies. The effect of inflation and devaluation had resulted in the non-recovery of the full value of insured items when losses occurred. I recommend that the FAO advise staff to obtain hard currency denominated insurance to reduce the risk of such losses, wherever this is practicable.

Common Accounting Standards

145. In 1993, following the final report of the UN Working Party on Accounting Standards, the Administrative Committee on Coordination approved formal common accounting standards for the United Nations system. These were subsequently recognised by the General Assembly of the United Nations. In 1993, in consultation with my staff, FAO began a review of the Organization's financial statements to identify the changes necessary to ensure conformity with these standards. This review will be completed during the 1994-95 biennium, with a view to implementing any necessary changes in the accounts for that financial period.

Acknowledgement

146. I wish to record my appreciation of the co-operation and assistance extended by the Director General and his staff during the audit.



Sir John Bourn
(Comptroller and Auditor General
United Kingdom)
External Auditor

24 July 1994

REGULAR PROGRAMME FINANCIAL STATEMENTS 1992-93

OPINION OF THE EXTERNAL AUDITOR

To: The Conference of the Food and Agriculture Organization

I have examined the following appended Financial Statements numbered I to IV, relevant schedules and Notes of the Regular Programme, of the Food and Agriculture Organization for the financial period ended 31 December 1993, 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. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

As a result of my examination I am of the opinion that the Financial Statements present fairly the financial position at 31 December 1993 and the results of the operations for the period then ended; that they were prepared in accordance with the stated accounting policies; and that the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with my usual practice I have also issued a Long-form Report on the audit of the Financial Statements, as provided for by the Financial Regulations of the Food and Agriculture Organization.



Sir JOHN BOURN
Comptroller and Auditor General
United Kingdom
External Auditor

21/7 July 1994

FINANCIAL STATEMENTS OF THE FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS

FOR THE FINANCIAL PERIOD 1992-93 ENDED 31 DECEMBER 1993

REGULAR PROGRAMME

(Consolidating Trust Funds and Support Costs)

Statements I to III, Relevant Schedules and Notes

CERTIFICATION OF FINANCIAL STATEMENTS

The amounts shown in the
statements properly reflect
the recorded financial
transactions for the period:

Approved:

Elmer S. Owens
Director
Financial Services Division

Jacques Diouf
Director-General

14 July 1994

REGULAR PROGRAMME
Financial Statements
for the Financial Period 1992-93

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- STATEMENT II** - **Income and Expenditure of the General Fund**
- STATEMENT III** - **Statement of Assets and Liabilities**
- Schedule 3.1.1** - **Contributions Unpaid and Due**
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- Schedule 3.2** - **Summary Statement of Trust Funds**
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Notes to the Financial Statements

**REGULAR PROGRAMME
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Accounting Period

The financial period of the Regular Programme is a biennium consisting of two consecutive calendar years.

2. Accounting Convention

The financial statements have been prepared under the historic cost convention and combine both the cash and accruals bases of accounting.

3. Investments

Investments are stated at cost value plus accrued income.

4. Translation policy

The financial statements are expressed in US dollars. Assets and liabilities in currencies other than US dollars have been translated at the UN operational rate of exchange in effect at 31 December 1993 which approximates to the market rate.

Income and expenditure items, except for staff costs, in currencies other than US dollars have been recorded at the UN operational rates of exchange in effect at the date of the transaction.

Exchange differences arise:

- i) When purchasing non-dollar currencies or US dollars as a result of differences between market rates and forward purchase rates, and the UN exchange rate;
- ii) When revaluing non-dollar currency holdings upon changes in the UN exchange rate.

These differences are credited or charged to the Special Reserve Account.

The element of staff costs which is based on the currency of the headquarters country is charged at the budget rate of exchange. Gains or losses arising from the difference between the budget rate and the rates at the time of payment are credited or charged to the Special Reserve Account.

5. Recognition of Income and Expenditure

The specific treatment of major categories of income and expenditure is described below:

i) Income:

- a) Contributions are amounts assessed on Member Nations net of the notional tax (staff assessment) relating to their respective nationals employed by the Regular Programme. Contributions from Member Nations are recorded as receivables when they become due with the corresponding credit to the Reserved Surplus, and they are recognized as income when received. Uncollected contributions are included in the Reserved Surplus.

- b) Miscellaneous Income is recognized on a cash basis except for bank interest and investment income which are recorded on an accrual basis.
- ii) Expenditure, apart from staff costs, includes:
 - a) Disbursements with regard to the current biennium's budget;
 - b) Outstanding obligations defined as prospective liabilities arising, for example, from binding contracts or purchase orders made; and
 - c) Any excess or shortfall in the settlement of amounts reported in the previous biennium as outstanding obligations.
- iii) Contributions to Trust Funds and Support Costs are recorded on a cash basis.
- iv) The cost of equipment purchased by the Regular Programme and Trust Funds is charged to expenditure. Equipment owned is shown at a nominal value of US\$1 in the Statement of Assets and Liabilities.

6. Staff Costs

Staff costs on the Regular Programme are charged to programmes and TCP projects at predetermined standard rates which are adjusted at the period end to reflect actual costs in US dollars calculated at the budget rate of exchange. Staff costs on Trust Funds are charged to the relative projects at the actual US dollar amounts when incurred. Staff costs on Support Costs are charged to programmes at predetermined standard rates which are adjusted at the period end to reflect actual costs in US dollars at exchange rates pertaining to the months when the costs were incurred.

Separation (i.e. salary) payments to General Service staff are provided for to the extent of 66.7 percent for the Regular Programme and fully for Trust Funds and Support Costs. Other non-salary separation costs, however, are charged when incurred. Full provision is made for termination costs relating to Trust Funds and a proportion of Support Costs funded staff.

7. Assets and Liabilities

The Regular Programme Statement of Assets and Liabilities consolidates the assets and liabilities of the Regular Programme and of the Trust Funds and other funds.

STATEMENT I

REGULAR PROGRAMME
THIRTIETH FINANCIAL PERIOD 1992-93
BUDGET APPROPRIATIONS, TRANSFERS AND EXPENDITURE
FOR THE PERIOD ENDED 31 DECEMBER : (note 1)

Chapter	Title	Budget Appropriations 1992-93				Expenditure including Outstanding Obligations at 31 December 1993	Balance of Appropriations Carried Forward to 1994-95	Unspent Balance of Appropriations at 31 December 1993
		As Voted in Conference Resolution 4/91	Transferred To Tax Equalization Fund	Other Budgetary Transfers (net)	Budget as Amended			
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
1	General Policy and Direction	51,416	0	(1,000)	50,416	50,006		410
2	Technical and Economic Programmes	328,439	0	(20,500)	307,939	305,509		2,430
3	Development Support Programmes	104,873	0	(3,000)	101,873	99,862		2,011
4	Technical Cooperation Programme (note 7)	77,409	0	0	77,409	41,969	35,440	0
5	Support Services	97,396	0	12,000	109,396	109,267		129
5	Common Services	16,778	0	12,500	29,278	29,230		48
7	Contingencies	600	0	0	600	0		600
Total Programme of Work		676,911	0	0	676,911	635,843	35,440	5,628
8	Transfer to Tax Equalization Fund	99,080	(99,080)	0	0	0	0	0
		775,991	(99,080)	0	676,911	635,843	35,440	5,628

Schedule 1.1

BUDGET APPROPRIATIONS, EXPENDITURE AND OBLIGATIONS BY PROGRAMME
FOR THE FINANCIAL PERIOD 1992-93 (note 1)
(US\$'000)

Chapter	Title	Budget Appropriations 1992-93 as Amended	Expenditure including Outstanding Obligations at 31 December 1993	Balance at 31 December 1993
1.	GENERAL POLICY AND DIRECTION			
	Governing Bodies	17,696	17,356	340
	Policy Direction and Planning	14,116	14,660	(544)
	Legal	5,509	5,225	284
	Liaison	13,095	12,765	330
	TOTAL Chapter 1	50,416	50,006	410
2.	TECHNICAL AND ECONOMIC PROGRAMMES			
	Natural Resources	21,825	21,510	315
	Crops	35,202	35,477	(275)
	Livestock	21,029	20,534	495
	Research	24,654	24,046	608
	Rural Development	34,495	34,229	266
	Nutrition	22,238	22,030	208
	Information and analysis	37,081	37,029	52
	Policy	34,503	34,008	495
	Programme Management	7,807	7,991	(184)
	Total Agriculture	238,834	236,854	1,980
	Fisheries	40,892	40,537	355
	Forestry	28,213	28,118	95
	TOTAL Chapter 2	307,939	305,509	2,430
3.	DEVELOPMENT SUPPORT PROGRAMMES			
	Field Programme Planning & Liason	8,231	9,272	(1,041)
	Investment	24,503	21,404	3,099
	Special Programmes	0	0	0
	FAO Representatives	67,720	66,553	1,167
	Programme Management	1,419	2,633	(1,214)
	TOTAL Chapter 3	101,873	99,862	2,011
4.	TECHNICAL COOPERATION PROGRAMME (note 4)	77,409	41,969	35,440
5.	SUPPORT SERVICES			
	Information and Documentation	25,024	24,444	580
	Administration	80,790	80,550	240
	Programme Management	3,582	4,273	(691)
	TOTAL Chapter 5	109,396	109,267	129
6.	COMMON SERVICES	29,278	29,230	48
7.	CONTINGENCIES	600	0	600
	GRAND TOTAL	676,911	635,843	41,068

Summary

(\$'000)

Balance of appropriations (Statement I) 5,628
Unobligated funds of Technical Cooperation Programme
carried forward for use in 1994-95 35,440

4. DSP

STATEMENT II

REGULAR PROGRAMME
THIRTIETH FINANCIAL PERIOD 1992-93
INCOME AND EXPENDITURE OF THE GENERAL FUND
FOR THE PERIOD ENDED 31 DECEMBER 1993

<u>INCOME</u>	<u>Notes</u>	1992-93		1990-91
		\$000	\$000	\$000
Member Nations' Contributions received	3	654,635		552,532
Less: Net Reimbursements to Working Capital Fund	4	(14,000)		23
Less: Reimbursement to Special Reserve Account	5	(18,000)		0
			622,635	552,555
Miscellaneous income:				
Net interest on Bank Accounts & Deposits		4,317		5,309
Lapse of Prior Years' Unliquidated Obligations		6,583		6,878
Rent of Conference and Office Facilities		4,235		5,026
Other Sundry Income		2,705		2,202
Special Contribution for T.C.P.		0		15,000
	6		17,840	34,415
Advance from Special Reserve Account	5		18,000	0
Special Transfer from/(to) Special Reserve Account	5		14,000	(5,546)
			672,475	581,424
<u>EXPENDITURE</u>				
Expenditure (Statement I)		635,843		536,605
T.C.P. Unobligated Funds of the current biennium carried forward for use in the following biennium (Statement I)	7	35,440		31,512
			671,283	568,117
Excess of Income over Expenditure (Statement III)			1,192	13,307
			672,475	581,424

REGULAR PROGRAMME
THIRTIETH FINANCIAL PERIOD 1992-93
CONSOLIDATED REGULAR PROGRAMME, SUPPORT COSTS AND TRUST FUNDS
STATEMENT OF ASSETS AND LIABILITIES
AT 31 DECEMBER 1993

STATEMENT III

<u>ASSETS</u>				1991
	<u>Notes</u>	\$000	\$000	\$000
<u>LIQUID ASSETS</u>				
Cash, Bank Deposits & Current Accounts				
Regular Programme		58,456		37 114
Trust Funds		195,820		154,100
			254,276	191,214
<u>ACCOUNTS RECEIVABLE</u>				
Outstanding Contributions of Member Countries:				
Contributions unpaid and due (Schedule 3.1.1)	3	132,774		155,095
Contributions payable by instalments				
in settlement of arrears (Schedule 3.1.2)	3	309		210
		133,083		155,305
Amounts due to Special Reserve Account	5	12,930		3 271
Amounts due as advances to Working Capital Fund	4	1,988		1,819
			148,001	160,395
Interfund Accounts		0		13,001
Accrued Interest		4,505		4,809
Other Accounts Receivable	8	25,757		27,627
			31,262	45,437
<u>INVESTMENTS</u>				
Investments at cost				
Compensation Plan Reserve Fund	9	31,420		25,704
Separation Payments Scheme Fund	9	76,524		60,548
			107,944	86,252
<u>CAPITAL ASSETS</u>				
Written-down value of FAO owned equipment, furniture and vehicles	10		1	1
			541,484	483,299
<u>LIABILITIES</u>				
Accounts Payable	8		14,159	29,115
Interfund Accounts			21,391	0
Outstanding Obligations			58,675	56,629
Unobligated Funds of the current biennium Appropriation of the Technical Cooperation Programme reserved for use in the following biennium	7		35,440	31,512
Loans Payable	11		0	32,000
Trust Funds Project Balances (Schedule 3.2)			156,701	108,322
Reserves and Other Funds (Schedule 3.3)			140,328	104,544
Special Reserve Account (Schedule 3.4)	5		5,764	0
Working Capital Fund (Schedule 3.5)	4		19,232	181
Reserved Surplus, equalling total of uncollected contributions from Member Nations, amounts due as advances to the Working Capital Fund, amounts due to the Special Reserve Account and written-down value of FAO owned equipment, furniture and vehicles			148,002	160,396
Excess of Income over Expenditure for current financial period		1,192		13,307
Accumulated Excess of Expenditure over Income brought forward		(39,400)		(52,707)
Accumulated Excess of Expenditure over Income carried forward			(38,208)	(39,400)
			541,484	483,299

CONTRIBUTIONS OF MEMBER NATIONS
CONTRIBUTIONS UNPAID AND DUE AT 31 DECEMBER 1993
(EXCLUDING CONTRIBUTIONS PAYABLE IN INSTALMENTS IN SETTLEMENT OF ARREARS)

<u>Member Nation</u>	<u>1990 & prior \$000</u>	<u>1991 \$000</u>	<u>1992 \$000</u>	<u>1993 \$000</u>	<u>Total Outstanding 31 December 1993 \$000</u>
Afghanistan			31	32	63
Albania				32	32
Antigua and Barbuda	66	28	31	32	157
Armenia				119	119
Bahamas			1	63	64
Bahrain				63	63
Benin	28	28			56
Bolivia	28	28	31	32	119
Bosnia and Herzegovina				40	40
Brazil			5,353	5,354	10,707
Bulgaria			303	539	842
Burkina Faso		11	32	32	75
Burundi	10	21	27	32	90
Cambodia	187	28	31	32	278
Cameroon			29	32	61
Cape Verde				32	32
Central African Republic		23	32	32	87
Chad	23	28	32	32	115
Comoros	9	28	31	32	100
Congo				32	32
Cook Islands				32	32
Costa Rica		14	63	63	140
Cote d'Ivoire		49	63	63	175
Croatia				119	119
Cuba			232	348	580
Czech Republic				353	353
D.P.R. of Korea			54	190	244
Djibouti	24		31	32	87
Dominica				19	19
Dominican Republic	430	111	127		668
Ecuador	49	54	55	52	210
El Salvador				32	32
Equatorial Guinea		2	32	32	66
Eritrea				8	8
Estonia			222	222	444
Gabon	65	111	127	127	430
Gambia		27	32	32	91
Grenada	18	14	27	32	91
Guatemala		56	63	63	182
Guinea				32	32
Guinea-Bissau			31	32	63
Guyana			9	32	41
Haiti	52	28	31	32	143
Iran		1,976	2,534	2,534	7,044
Iraq	390	390	443	444	1,667
Jamaica		28	31	32	91
Jordan			6	32	38

Schedule 3.1.1

CONTRIBUTIONS OF MEMBER NATIONS
CONTRIBUTIONS UNPAID AND DUE AT 31 DECEMBER 1993
(EXCLUDING CONTRIBUTIONS PAYABLE IN INSTALMENTS IN SETTLEMENT OF ARREARS)

<u>Member Nation</u>	<u>1990 & prior \$000</u>	<u>1991 \$000</u>	<u>1992 \$000</u>	<u>1993 \$000</u>	<u>Total Outstanding 31 December 1993 \$000</u>
Kenya				29	29
Kyrgyz Republic				55	55
Latvia		7	412	412	831
Liberia	63	28	32	32	155
Lithuania			310	475	785
Madagascar			16	32	48
Mali		25	32	32	89
Mauritania		27	32	32	91
Mongolia				32	32
Mozambique				18	18
Nicaragua				32	32
Niger	28	28	31	32	119
Nigeria				544	544
Pakistan				103	103
Panama		17	63	63	143
Papua New Guinea		20	31	32	83
Paraguay			125	127	252
Peru		1	221	222	444
Poland				1,979	1,979
Qatar				190	190
Romania		158	697	697	1,552
Rwanda			26	32	58
St Vincent & the Grenadines			4	4	8
Sao Tome and Principe		28	31	32	91
Seychelles	12	28	31	32	103
Sierra Leone	52	28	31	32	143
Slovakia				110	110
Slovenia				79	79
Solomon Islands			31	32	63
Somalia	76	28	31	32	167
South Africa				372	372
Spain				7,191	7,191
Sudan			29	32	61
Suriname	87	28	32	32	179
The former Yugoslavia					
Republic of Macedonia				16	16
Togo		23	32	32	87
Tonga			7	2	9
Trinidad and Tobago			183	190	373
Tunisia				8	8
Turkey			461	1,172	1,633
Uganda		27	31	32	90
United Arab Emirates				697	697
United States of America	75,443	253	657	83	76,436
Uruguay				158	158
Vanuatu				32	32
Venezuela			2,090	2,091	4,181
Yemen	17	28	31	32	108
Yugoslavia	1,300	1,531	1,710	1,711	6,252
Zaire		28	31	32	91
Zimbabwe		56	63	63	182
Total	78,457	5,480	17,721	31,116	132,774

Schedule 3.1.2

CONTRIBUTIONS OF MEMBER NATIONS
CONTRIBUTIONS PAYABLE BY INSTALMENTS IN SETTLEMENT OF ARREARS
AT 31 DECEMBER 1993

<u>Member Nation</u>	<u>Conference Resolution</u>	<u>Due 1991 and prior \$000</u>	<u>Due 1992 \$000</u>	<u>Due 1993 \$000</u>	<u>Due in Future years \$000</u>	<u>Total Due \$000</u>
Antigua and Barbuda	14/87	18	6	6	18	48
Chad	18/85	20	10	10	10	50
Comoros	13/83	7	7	0	0	14
Equatorial Guinea	14/91	0	13	13	102	128
Guyana	15/87	0	7	7	27	41
Paraguay	19/85	0	7	7	14	28
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total		45	50	43	171	309
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

SCHEDULE 3.2

SUMMARY STATEMENT OF TRUST FUNDS OF
THE REGULAR PROGRAMME
FOR THE FINANCIAL PERIOD 1992-93

INCOME		EXPENDITURE	
-----		-----	
	US\$'000		US\$'000
Balance at 1 January 1992	114,712	Expenditure including outstanding obligations	
		1992	219,819
		1993	<u>204,546</u>
			424,365
Receipts (including interest)			
1992	232,102		
1993	<u>234,252</u>	Balance at 31 December 1993	
	466,354	(Statement III)	<u>156,701</u>
	<u>581,066</u>		<u>581,066</u>

TRANSACTIONS ON RESERVES AND OTHER FUNDS
FOR THE FINANCIAL PERIOD 1992-93

Schedule 3.3

	Balance at 1 January 1992 \$000	Income \$000	Expenditure and Outstanding Obligations \$000	Amounts Transferred \$000	Balance at 31 December 1993 \$000
RESERVE FUNDS					
COMPENSATION PLAN RESERVE FUND	25,499	8,018	3,569		29,948
TERMINAL PAYMENTS FUND	1,172	3,280	4,359	(15,000) a/	15,093
SEPARATION PAYMENTS SCHEME FUND	63,665	27,307	9,157		81,815
OTHER FIDUCIARY FUNDS	9,489	10,642	9,173		10,958
TOTAL RESERVE FUNDS	99,825	49,247	26,258	(15,000)	137,814
OTHER FUND ACCOUNTS					
SUPPORT COST ACCOUNTS	4,637	72,871	74,931		2,577
SERVICES PROVIDED TO W.F.P.	0	16,291	16,291		0
WORLD BANK COOPERATION PROGRAMME Shared Costs Account	0	19,787	26,383	(6,596) b/	0
PUBLICATIONS REVOLVING FUND General Publications	90	1,989	2,113	80 c/ (114) c/	0
Ceres FAO Review	0	0	1,378	(1,378) d/	0
TAX EQUALIZATION FUND	(10)	99,080	1,813	97,980 e/ (660) f/	(63)
TOTAL OTHER FUND ACCOUNTS	4,717	210,018	122,909	89,312	2,514
TOTAL RESERVE AND OTHER FUNDS	104,542	259,265	149,167	74,312	140,328

a/ \$15,000,000 loaned to the Regular Programme in the previous biennium was repaid in 1992.

b/ World Bank 75% share is reimbursed by the World Bank; FAO 25% share is transferred as expenditure to Chapter 3 of Statement I.

c/ \$80,000 transferred to Miscellaneous Income in accordance with Financial Regulation 6.9; reflects the balance at 31 December 1991 less \$10,000 retained and \$114,000 transferred as expenditure against the Publications Services Pool.

d/ \$1,378,000 transferred as expenditure against the Regular Programme allotment as provided in the Programme of Work and Budget.

e/ Transfer to the credit of Member Nations' contributions accounts. Reflects credit of \$99,080,000 for staff assessment less \$1,100,000 required to meet the estimated cost of tax refunds to staff members of a Member Nation.

f/ Transferred to the debit of a Member Nation's contribution account. Reflects the deficit of a Member Nation's contribution to meet the cost of refunds to staff members in 1990-91 over the actual cost.

Schedule 3.4

TRANSACTIONS ON THE SPECIAL RESERVE ACCOUNT
ESTABLISHED BY CONFERENCE RESOLUTION 13/81
FOR THE FINANCIAL PERIOD 1992-93

(note 5)

AUTHORIZED LEVEL

	\$000
Level at 1 January 1992	
(5% of 1992-93 PWB of \$676,911,000)	33,846
	<hr/>
Level at 31 December 1993	
(5% of 1994-95 PWB of \$673,114,000)	33,656
	<hr/>

CASH LEVEL

RECEIPTS

\$000

PAYMENTS

\$000

Balance at 1 January 1992	0	Net loss on Gains and Losses on Exchange Account during 1992-93 in accordance with Conference Resolution 17/89	27,350
Receipts from Member Nations against the Special Assessments	18,234		
Reimbursement from General Fund in November 1993	18,000	Advance to General Fund in October 1993	18,000
Positive currency variance on staff costs arising from differences between the Lira exchange rate used for the budget (1210) and the average rate in 1992-93 (1388)	28,880	Special Transfer to General Fund at 31 December 1993	14,000
	<hr/>	Balance at 31 December 1993	5,764
	65,114		<hr/>
	<hr/>		65,114
			<hr/>

Schedule 3.5

TRANSACTIONS ON THE WORKING CAPITAL FUND
FOR THE FINANCIAL PERIOD 1992-93

(note 4)

AUTHORIZED LEVEL

\$000

Level at 31 December 1991	20,000
Increase at 1 January 1992	5,000
	<hr/>
Level at 31 December 1993	25,000
	<hr/> <hr/>

CASH LEVEL

RECEIPTS

\$000

PAYMENTS

\$000

Balance at 1 January 1992 181

Reimbursed from General Fund on
receipt of arrears of contributions
(Statement II):

in May 1992	18,000
in April 1993	22,944
in December 1993	19,000

Advanced to General Fund in accordance
with Financial Regulation 6.2 (a)(i):

in October 1992	22,944
in August 1993	23,000

Receipts from Member Nations
against the Special Assessments 5,051

Balance at 31 December 1993 19,232

65,176

65,176

Statement IV

CASH FLOW STATEMENT
FOR PERIOD ENDED 31 DECEMBER 1993

	\$000	\$000
Net Surplus for the period		1,192
Adjustment for:		
Net interest receivable		(4,317)
		(3,125)
<u>Returns on investments and servicing of finance</u>		
Interest received	4,700	
Interest paid	(173)	
Net cash inflow from returns on investments and servicing of finance		4,527
Operating result before working capital changes		1402
Increase in receivables	(323)	
Decrease in creditors	(5,745)	
Decrease in Interfund	26,392	
Increase in TCP appropriation carried forward	3,928	
Increase in Outstanding Obligations	1,225	
		25,477
Net cash inflow from operating activities		26,879
<u>Investing activities</u>		
Compensation Plan Relief Plan	(4,276)	
Separation Payments Scheme	5,183	
Other Funds	1,327	
Net cash inflow from investing activities		2,234
<u>Financing</u>		
Repayment of loan	(32,000)	
Net Advance from Working Capital Fund	14,000	
WCF Special Assessments	5,051	
SRA Special Assessments/exchange gains	19,764	
Net Advance from SRA	(14,000)	
Net cash outflow from financing		(7,185)
NET INCREASE IN CASH AND CASH EQUIVALENTS		21,928
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		36,528
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Statement III)		58,456

Annex 1.1

STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1992-93 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993

Country	Number of Projects	Project Budgets (US\$'000)	Expenditure including Outstanding Obligations (US\$'000)	Unobligated Balance of Budget (US\$'000)
AFRICA				
Africa Regional	26	5,535	3,211	2,324
Angola	2	55	19	36
Benin	3	289	237	52
Botswana	2	427	219	208
Burkina Faso	3	376	179	197
Burundi	8	1,027	598	429
Cameroon	3	291	151	140
Cape Verde	3	287	186	101
Central African Republic	5	670	388	282
Chad	1	70	33	37
Comoros	1	98	84	14
Congo	4	300	248	52
Cote d'Ivoire	6	748	248	500
Djibouti	1	137	13	124
Eritrea	3	592	502	90
Ethiopia	7	776	368	408
Gabon	1	185	20	165
Gambia	2	244	176	68
Ghana	2	237	35	202
Guinea	5	822	387	435
Guinea-Bissau	4	447	408	39
Kenya	6	362	335	27
Lesotho	4	455	58	397
Liberia	1	238	191	47
Madagascar	6	705	487	218
Malawi	7	1,042	417	625
Mali	8	1,104	644	460
Mauritania	4	456	280	176
Mozambique	3	549	190	359
Namibia	8	723	500	223
Niger	3	453	182	271
Nigeria	4	676	190	486
Rwanda	4	619	449	170
Sao Tome & Principe	1	265	57	208
Senegal	4	685	512	173
Seychelles	2	161	139	22
Sierra Leone	1	310	44	266
Swaziland	4	875	237	638
Tanzania	8	1,143	796	347
Togo	3	224	76	148
Uganda	6	866	539	327
Zaire	5	442	214	228
Zambia	6	841	422	419
Zimbabwe	5	726	561	165
	195	27,533	15,230	12,303
ASIA AND THE PACIFIC				
Afghanistan	1	212	117	95
Asia Regional	11	1,647	921	726
Bhutan	1	267	215	52
China	10	1,982	898	1,084
Cook Island	2	186	189	(3)
Democratic Republic of Korea	6	789	355	434
Fiji	3	120	105	15
India	10	1,339	604	735
Indonesia	6	1,056	656	400
Iran	7	442	287	155
Kampuchea	5	1,164	930	234
Laos	8	830	289	541
Malaysia	1	100	71	29
Maldives	4	289	191	98
Mongolia	4	781	368	413

Annex 1.1

**STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1992-93 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993**

<u>Country</u>	<u>Number of Projects</u>	<u>Project Budgets (US\$'000)</u>	<u>Expenditure including Outstanding Obligations (US\$'000)</u>	<u>Unobligated Balance of Budget (US\$'000)</u>
Nepal	6	949	544	405
Pakistan	8	1,163	571	592
Papua New Guinea	2	98	47	51
Philippines	8	1,136	742	394
Samoa	2	186	81	105
Solomon Islands	1	123	86	37
Sri Lanka	4	317	137	180
Thailand	2	482	360	122
Tonga	2	155	113	42
Union of Myanmar	2	375	139	236
Vanuatu	2	211	66	145
Viet Nam	8	1,044	864	180
	126	17,443	9,946	7,497
<u>EUROPE</u>				
Albania	3	633	511	122
Bulgaria	3	376	133	243
Croatia	1	300	36	264
Cyprus	2	77	78	(1)
Czechoslovakia	3	372	344	28
Eastern Europe Region	2	470	161	309
Estonia	1	190	63	127
Hungary	3	552	380	172
Lithuania	2	375	105	270
Malta	1	175	14	161
Poland	2	330	136	194
Romania	1	175	13	162
Turkey	3	572	420	152
	27	4,597	2,394	2,203
<u>LATIN AMERICA AND THE CARIBBEAN</u>				
Antigua & Barbuda	1	120	39	81
Argentina	5	567	292	275
Barbados	2	220	100	120
Bahamas	1	63	63	0
Belize	3	328	147	181
Bolivia	6	960	673	307
Brazil	5	1,100	952	148
Chile	5	755	351	404
Colombia	1	250	113	137
Costa Rica	2	335	62	273
Cuba	7	800	345	455
Dominica	3	510	40	470
Dominican Republic	3	420	235	185
Ecuador	3	345	230	115
El Salvador	3	545	356	189
Grenada	2	60	27	33
Guatemala	1	140	94	46
Honduras	3	555	291	264
Jamaica	4	375	157	218
Latin America Reg.	10	2,110	1,143	967
Mexico	4	730	438	292
Nicaragua	5	670	320	350
Paraguay	3	395	118	277
Peru	5	700	598	102
Trinidad & Tobago	2	328	45	283
Uruguay	6	765	340	425
Venezuela	1	120	13	107
	96	14,286	7,582	6,704

Annex 1.1

STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1992-93 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993

<u>Country</u>	<u>Number of Projects</u>	<u>Project Budgets (US\$'000)</u>	<u>Expenditure including Outstanding Obligations (US\$'000)</u>	<u>Unobligated Balance of Budget (US\$'000)</u>
<u>NEAR EAST</u>				
Algeria	7	563	273	290
Egypt	9	1,261	403	858
Iraq	6	1,158	905	253
Jordan	3	568	295	273
Lebanon	6	804	549	255
Morocco	5	748	234	514
Near East Regional	5	934	466	468
Somalia	3	721	393	328
Sudan	8	1,422	816	606
Syria	3	589	298	291
Tunisia	7	1,009	860	149
Yemen Arab Republic	4	768	698	70
	66	10,545	6,190	4,355
<u>INTERREGIONAL</u>	<u>2</u>	<u>342</u>	<u>323</u>	<u>19</u>
<u>MISCELLANEOUS</u>	<u>0</u>	<u>0</u>	<u>304</u>	<u>(304)</u>
TOTAL	<u>512</u>	<u>74,746</u>	<u>41,969</u>	<u>32,777</u>

1992-93 Budget Appropriations

77,409

Total Expenditure & Obligations
against 1992-93 Budget Appropriations

41,969

Unobligated Balance carried forward in accordance
with Financial Regulation 4.3 (Statement II)

35,440

Annex 1.2

STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1990-91 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993

<u>Country</u>	<u>Number of Projects</u>	<u>Expenditure including Outstanding Obligations (US\$'000)</u>
<u>AFRICA</u>		
Africa Regional	12	2,030
Angola	3	558
Benin	2	194
Botswana	2	262
Burkina Faso	10	1,182
Burundi	6	519
Cameroon	6	911
Cape Verde	5	736
Central African Republic	2	99
Chad	6	925
Comoros	2	367
Congo	5	440
Cote d'Ivoire	5	690
Djibouti	3	151
Equatorial Guinea	4	421
Ethiopia	10	1,584
Gabon	1	83
Gambia	5	582
Ghana	3	466
Guinea	12	1,263
Guinea-Bissau	6	438
Kenya	10	1,273
Lesotho	2	599
Liberia	1	388
Madagascar	7	865
Malawi	7	902
Mali	7	778
Mauritania	8	1,217
Mauritius	2	112
Mozambique	9	1,187
Namibia	6	649
Niger	3	238
Nigeria	7	887
Rwanda	7	676
Sao Tome & Principe	3	70
Senegal	3	567
Seychelles	7	432
Sierra Leone	3	490
Swaziland	3	197
Tanzania	10	956
Togo	9	378
Uganda	4	484
Zaire	3	88
Zambia	6	1,201
Zimbabwe	5	553
	242	29,088
<u>ASIA AND THE PACIFIC</u>		
Afghanistan	1	17
Asia Regional	10	1,535
Bangladesh	4	1,117
Bhutan	3	326
China	11	1,507
Cook Island	1	74
Democratic Republic of Korea	6	460

Annex 1.2

STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1990-91 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993

<u>Country</u>	<u>Number of Projects</u>	<u>Expenditure including Outstanding Obligations (US\$'000)</u>
Fiji	4	310
India	5	426
Indonesia	5	561
Iran	7	473
Kampuchea	2	53
Korea, Republic of	5	563
Laos	6	608
Malaysia	1	66
Maldives	3	172
Mongolia	5	512
Nepal	5	630
Pakistan	6	653
Papua New Guinea	1	164
Philippines	5	533
Samoa	3	368
Solomon Islands	1	83
Sri Lanka	4	432
Thailand	3	719
Tonga	3	393
Union of Myanmar	7	774
Viet Nam	5	510
	122	14,039
<u>CENTRAL AMERICA</u>		
Central America	1	311
	1	311
<u>EUROPE</u>		
Bulgaria	2	93
Cyprus	3	248
Czechoslovakia	1	102
Estonia	1	12
Hungary	2	148
Lithuania	1	3
Malta	1	207
Poland	1	194
Turkey	7	778
Yugoslavia	1	13
	20	1,798
<u>LATIN AMERICA AND THE CARIBBEAN</u>		
Antigua & Barbuda	1	127
Argentina	4	708
Bahamas	2	343
Belize	3	324
Bolivia	3	268
Brazil	6	1,003
Chile	4	624
Colombia	5	579
Costa Rica	4	546
Cuba	8	906
Dominica	1	57
Dominican Republic	3	434
Ecuador	4	625
El Salvador	3	309

Annex 1.2

STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1990-91 BUDGET APPROPRIATIONS AT 31 DECEMBER 1993

<u>Country</u>	<u>Number of Projects</u>	<u>Expenditure Including Outstanding Obligations (US\$'000)</u>
Grenada	2	270
Haiti	1	177
Honduras	5	378
Jamaica	3	544
Latin America Reg.	14	2,115
Mexico	6	1,303
Nicaragua	4	384
Panama	3	314
Paraguay	4	512
Peru	6	760
Saint Lucia	2	55
Suriname	3	345
S. Christopher Nevis	1	137
S. Vincent & Grenadines	1	97
Trinidad & Tobago	4	421
Uruguay	2	158
Venezuela	1	190
	113	15,013
<u>NEAR EAST</u>		
Algeria	4	142
Somalia	7	550
Egypt	6	740
Iraq	2	106
Jordan	5	528
Lebanon	4	757
Libya	2	415
Morocco	4	475
Near East Regional	2	488
Sudan	6	516
Syria	4	459
Tunisia	5	874
Yemen Arab Republic	7	904
	58	6,954
<u>MISCELLANEOUS</u>	0	542
TOTAL	556	67,745
1990-91 Budget Appropriations		67,767
Total Expenditure & Obligations against 1990-91 Budget Appropriations		67,745
Unobligated Balance transferred to Miscellaneous Income (Statement II)		22

NOTES TO THE FINANCIAL STATEMENTS

1. BUDGET APPROPRIATIONS, TRANSFERS AND EXPENDITURE

The total Programme of Work for 1992-93 approved by the Conference at its 26th Session (Resolution 4/91) totalled US\$676 911 000. The appropriations voted by the Conference are shown in Statement 1. With the approval of the Finance Committee at its 77th Session the Director-General effected several inter-Chapter budgetary transfers under Financial Regulation 4.5(b)(i).

2. ACCOUNTING FOR INCOME ON AN ACCRUAL BASIS

The Administrative Committee on Coordination (ACC) has approved a set of accounting standards to be applied throughout the United Nations system. These standards provide that income be accounted for on an accrual basis. It also provides that provision may be made for delay in receipt of contributions. The following comparative analysis shows the Income and Expenditure for the biennia 1988-89, 1990-91 and 1992-93 as reported and with Contributions taken into account on an accrual basis:

	1988-89		1990-91		1992-93	
	Cash Basis	Accrual Basis	Cash Basis	Accrual Basis	Cash Basis	Accrual Basis
<u>INCOME</u>						
Contributions	423.5	480.6	552.5	556.8	654.6	633.6
Miscellaneous Income	<u>33.5</u>	<u>33.5</u>	<u>34.4</u>	<u>34.4</u>	<u>17.8</u>	<u>17.8</u>
	<u>457.0</u>	<u>514.1</u>	<u>586.9</u>	<u>591.2</u>	<u>672.4</u>	<u>651.4</u>
<u>EXPENDITURE</u>						
Expenditure against Budget	433.5	433.5	536.6	536.6	635.8	635.8
Unobligated TCP						
carried forward	<u>34.1</u>	<u>34.1</u>	<u>31.5</u>	<u>31.5</u>	<u>35.4</u>	<u>35.4</u>
	467.6	467.6	568.1	568.1	671.2	671.2
<u>EXCESS OF INCOME OVER EXPENDITURE</u>						
	<u>(10.6)</u>	<u>46.5</u>	<u>18.8</u>	<u>23.1</u>	<u>1.2</u>	<u>(19.8)</u>
<u>CONTRIBUTIONS OUTSTANDING</u>						
Current Biennium	103.4	103.4	47.8	47.8	48.8	48.8
Prior Biennia	<u>47.6</u>	<u>47.6</u>	<u>107.5</u>	<u>107.5</u>	<u>84.3</u>	<u>84.3</u>
	<u>151.0</u>	<u>151.0</u>	<u>155.3</u>	<u>155.3</u>	<u>133.1</u>	<u>133.1</u>

Although the accrual approach would have led to an excess of income over expenditure in 1988-89 and 1990-91, in both cases the level of contributions unpaid in those biennia exceeds the surplus.

3. SUMMARY OF CONTRIBUTIONS RECEIVED AND OUTSTANDING

	Contributions Unpaid and due \$000	Contributions arrears payable by instalments \$000	Total \$000
Balance outstanding at 1 January 1992	155 095	210	155 305
Amount assessed for 1992-93 (a) (after Tax Equalization Fund Adjustment)	634 660	-	634 660
New Members assessments	<u>1 292</u> 791,047	<u>-</u> 210	<u>1 292</u> 791 257
New instalment plan	(127)	127	-
1993 Assessed Contribution of Czechoslovakia written-off (Conference Resolution 14/93)	2 439	-	2 439
Contributions received in 1992-93 (b)	<u>655 707</u>	<u>28</u>	<u>655 735</u>
Balance outstanding at 31 December 1993	<u>132 774</u>	<u>309</u>	<u>133 083</u>
		\$000	
(a) Gross amount assessed in 1992-93		732 640	
Staff Assessment		(99 080)	
Amounts withheld to meet the cost of tax			
Refunds to staff members of a Member Nation		<u>1 100</u>	
		<u>634 660</u>	
(b) Contributions received in 1992-93 were credited to:			
Income from contributions (Statement II)		654 635	
Tax Equalization Fund (note 4)		<u>1 100</u>	
		<u>655 735</u>	

4. WORKING CAPITAL FUND

The balance of the Working Capital Fund carried forward into 1992 was US\$181 000 after US\$18 000 000 had been advanced in 1991 to the General Fund to finance budgetary expenditures pending receipt of contributions (Financial Regulation 6.2(a)(i)).

The Conference by Resolution 15/91 increased the authorized level of the Working Capital Fund from US\$20 000 000 to US\$25 000 000. In addition, assessments amounting to US\$255 000 were made on new Member Nations admitted to the Organization in 1993. Receipts from Member Nations for the special and previous assessments amounted to US\$5 051 000. Member Nations owed US\$1 988 000 against the assessments at 31 December 1993.

In May 1992 the Working Capital Fund was reimbursed with US\$18 000 000 from the General Fund in accordance with Financial Regulation 6.5(a), which stipulates that advances from the Working Capital Fund shall be reimbursed as soon as feasible.

In October 1992 it was necessary to advance US\$22 944 000 from the Working Capital Fund to the General Fund to finance budgetary expenditure. In April 1993 the Working Capital Fund was reimbursed with US\$22 944 000 from the General Fund.

In August 1993 it became necessary to advance US\$23 000 000 again to the General Fund. US\$19 000 000 was reimbursed to the Working Capital Fund from the General Fund in December 1993, leaving a balance of US\$4 000 000 to be reimbursed.

The balance on the Working Capital Fund at 31 December 1993 as a result of the above transactions was US\$19 232 000.

5. SPECIAL RESERVE ACCOUNT

The Special Reserve Account was established by Conference Resolution 27/77 to protect the Organization's Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary trends. Conference Resolution 17/89 directed that the net gain or loss on exchange in addition to the currency variance on staff costs should be charged to the Special Reserve Account.

The Special Reserve Account was fully exhausted in 1990-91 and a zero balance was carried forward into 1992. The level of the Special Reserve Account is established at 5 percent of the effective working budget, which for 1992-93 would have been US\$33 846 000.

The Conference, by Resolution 16/91, stipulated a special assessment on Member Nations payable in two instalments of US\$14 000 000 due on 1 January 1992 and 1 January 1993. US\$18 234 000 was received from Member Nations towards this and previous assessments. Member Nations still owe US\$12 930 000 in respect of these assessments.

The Programme of Work was approved at the budget rate of Lire 1 210 to US\$1. The Organization entered into contracts for forward purchase of estimated Lire requirements for the biennium at an average rate of Lire 1 278 to US\$1. The purpose of these contracts was to protect the budget from currency losses. In doing so, however, these contracts locked the Organization into a particular Lire rate which prevented gains when the Lire rate weakened below the contract rate as was the case during 1992-93. The effect of all currency movements on the Special Reserve Account was a gain of US\$1 530 000. This consists of a favourable staff cost currency variance of US\$28 880 000 largely offset by the accounting losses of US\$24 655 000 arising from Lire purchases, at Lire 1 278 versus an average Lire/Dollar UN rate of exchange of Lire 1 388, and losses on other currencies of US\$2 695 000.

In addition, in October 1993 an advance was made to the General Fund of US\$18 000 000 pending receipt of contributions. This was reimbursed in November 1993.

The Finance and Programme Committees at their Joint Session in September 1993 authorized the transfer from the Special Reserve Account to the General Fund of up to US\$18 000 000 to meet unbudgeted costs. US\$14 000 000 was transferred to the General Fund in December 1993 for this purpose.

The balance on the Special Reserve Account at 31 December 1993 as a result of the above transactions was US\$5 764 000.

6. MISCELLANEOUS INCOME

Net Interest on bank accounts and deposits includes a charge for external borrowing costs of US\$173 000 as provided for in Council Resolution 2/80 and confirmed by Conference Resolution 14/83. In addition US\$654 000 of discounts for early payment of current contributions was charged against interest received as confirmed by the 76th session of the Finance Committee. Other sundry income includes a write-back of payment items authorized for payment in the field totalling US\$833 000.

7. TECHNICAL COOPERATION PROGRAMME

The establishment of a Technical Cooperation Programme provides FAO with the flexibility to respond to urgent, small-scale requests from developing countries. Directed at providing assistance for emergencies, investment proposals, training and small-scale unforeseen requirements, the projects are of short-term duration not to exceed US\$400 000, in any one instance. The unobligated funds to be carried forward to 1994-95 in accordance with Financial Regulation 4.3 amounted to US\$35 440 000 (Statement II).

The 1990-91 appropriation was completely obligated except for US\$22 000 which was transferred to Miscellaneous Income at 31 December 1993. The movements on the 1990-91 appropriation during this biennium were as follows:

	\$000
Balance of unobliged funds brought forward at 1 January 1992	
in accordance with Financial Regulation 4.3	31 512
Expenditure including outstanding obligations in 1992-93	31 490
Balance transferred to Miscellaneous Income at 31 December 1993	<u>22</u>

8. OTHER ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Other Accounts Receivable

	\$000
Salary and Other Advances	14 963
Deposits and Prepayments	1 029
Joint Programme with Development Banks	5 285
Due from Other Agencies/Organizations	1 952
Due from Governments	752
Sundries	<u>2 776</u>
Total Accounts Receivable	<u>26 757</u>

Salary and Other Advances are shown net of a provision for doubtful debts of US\$298 000 to cover overpayments and unrecovered advances to former staff members.

Accounts Payable

	\$000
Payroll Accruals	3 456
Authorized Payments in the Field	2 762
Deferred Credits	610
Pension and Medical Schemes	1 822
Member Nations' Contributions in Advance	974
Unallocated Receipts	1 039
Due to Governments	448
Sundries	<u>3 048</u>
Total Accounts Payable	<u>14 159</u>

9. INVESTMENTS

The value of investments at cost, including accrued income, and at market value at 31 December 1993 is as follows:

	<u>At Cost</u>	<u>Market Value</u>
	\$000	\$000
Compensation Plan Reserve Fund	31 420	36 423
Separation Payments Scheme Fund	<u>76 524</u>	<u>88 490</u>
	<u>107 944</u>	<u>124 913</u>

10. EQUIPMENT, FURNITURE AND VEHICLES

The value of FAO-owned equipment, furniture and vehicles at 31 December 1993 at cost price was US\$100 271 000 of which US\$40 736 000 related to the Regular Programme and US\$59 535 000 to Trust Funds. The costs of these items are charged to expenditure when purchased and are shown on the Statement of Assets and Liabilities, Statement III, at a nominal value of US\$1.

The valuation of the stock of FAO money and medals at 31 December 1993 was US\$148 000. Coins are valued at face value converted at the current UN exchange rate, with certain exceptions, e.g., coins purchased at a premium above face value. Medals and bullion for minting medals are valued at the lower of cost or replacement value. These items are included in the nominal value of US\$1 for inventories on Statement III.

11. LOANS PAYABLE

The Director-General was authorized by Conference Resolution 14/83 to resort to borrowing in order to implement the Programme of Work and Budget. Borrowings amounting to US\$32 million were carried forward into 1992 and were made up of US\$17 million of external bank borrowing plus US\$15 million borrowed internally from the Terminal Payments Fund. US\$17 million of external borrowing was repaid in February 1992 and US\$15 million of internal borrowing was repaid in March 1992.

12. SERVICES PROVIDED BY THE ORGANIZATION

Accommodation, furniture and equipment were made available free of charge to the Staff Restaurant and Canteens. In addition, cleaning, water, gas and electricity services, estimated at US\$14 000 were provided during the biennium.

13. PERSONNEL RELATED LIABILITIES

The Organization has certain personnel related liabilities which are fully or only partially provided for.

The Compensation Plan provides compensation for all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties. The balance of the Fund at 31 December 1993 was US\$29 948 000. An actuarial review carried out on 1 January 1993 confirmed that the fund was in surplus and the liabilities fully covered. The Actuary also recommended a reduction in the rates of contributions to the Fund to be introduced on 1 January 1994.

The Terminal Payments Fund provided for repatriation grant for staff members funded by Trust Fund and Trust Fund Support Costs. The Finance Committee at its 76th Session extended the Terminal Payments Fund to cover a) other repatriation entitlements (accrued leave, termination

indemnity and repatriation travel) and b) all staff members funded by Trust Funds and a proportion of staff members funded by Support Costs are now eligible. The balance of the Fund at 31 December 1993 was US\$15 093 000.

The Separation Payments Scheme Fund provides for separation entitlements to general service staff based at headquarters. The results of the actuarial review of 1 January 1990 revealed the Fund covers liabilities fully except for Regular Programme which had an overall shortfall of US\$16 721 000. The Actuary recommended to continue the present level of contributions which would give rise to an increased funding from the present 66.7 percent to 75 percent and a decrease of payments from the Budget from 33.3 percent to 25 percent. The Finance Committee at their Sixty-eighth Session (May 1990) decided to maintain the present arrangements in order to eliminate the deficit on the Scheme. The balance on the Fund at 31 December 1993 was US\$81 815 000. The Organization estimated the liability (for Regular Programme, Support Costs and Trust Funds staff) at 31 December 1993 at US\$74 531 000.

In addition there are other obligations which are not funded. The estimates for these are as follows:

Repatriation Grant (Regular Programme and Support Costs)	US\$20 000 000
Accrued leave (RP, and Support Costs)	US\$14 500 000
Repatriation Travel and Household Removals (RP and Support Costs)	US\$47 400 000

Finally the Organization has a long-term commitment in relation to after service medical coverage for retirees. Since 1989, with the agreement of the staff associations, a premium sharing arrangement was agreed and implemented. An actuarial review carried out on 1 January 1993 estimated the liability to be some US\$267 million.

14. PENDING LITIGATION

During the biennium the ILO Administrative Tribunal heard 19 cases brought against FAO of which only one had an immaterial financial implication. Another two cases are still pending but are unlikely to have any financial implications.

In addition, FAO has opposed the judgement of a National Court against FAO in connection with a Trust Funds project on the grounds of immunity. There was no other matter which may result in significant financial implication for the Organization.

15. FORWARD EXCHANGE CONTRACTS

The Director-General entered into forward exchange contracts for the purchase of Italian Lira for the biennium 1994-95. The total liability under these contracts is US\$312 000 000 payable in amounts of US\$13 000 000 per month from January 1994 until December 1995. These contracts are expected to provide the Organization with nearly all its Lira requirements over the 1994-95 biennium at rates considerably more beneficial than the Budget Rate approved for that biennium.

16. EX-GRATIA PAYMENTS

A staff member with a terminal condition incurred hospital costs of Lire 7 977 000 that were not reimbursable by the FAO medical scheme. On his death, the terminal emoluments were not significant due to his relatively short length of service with FAO. Therefore, the Director-General authorized an ex-gratia payment of Lire 7 976 000 to the bereaved family.

A Trust Funds project officer driving an official FAO car was involved in a car accident in the course of his official duties in which a government officer died. The car insurance policy of FAO covered only the driver. The Director-General with the agreement of the government, authorized an ex-gratia payment of US\$8 000 to compensate the family of the deceased government official.