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CONFERENCE

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FINANCIAL REPORT AND STATEMENTS: VOLUME II UNITED NATIONS DEVELOPMENT PROGRAMME 1992-93

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**REPORT OF THE EXTERNAL AUDITOR ON THE STATEMENT SHOWING
THE STATUS OF FUNDS AS AT 31 DECEMBER 1993 ADVANCED TO
THE FOOD AND AGRICULTURE ORGANIZATION BY
THE UNITED NATIONS DEVELOPMENT PROGRAMME**

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INTRODUCTION

Scope of the Audit

1. I have audited the statements and supporting schedules relating to the participation of the Food and Agriculture Organization (FAO) in the United Nations Development Programme (UNDP) 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.

Audit Objectives

2. 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 UNDP; whether income and expenditure were properly classified and recorded in accordance with the instructions of the UNDP, together with the Financial Regulations of the FAO; and whether the Status of Funds Statement presented fairly the financial position at 31 December 1993.

3. 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 Status of Funds Statement is free of material mis-statement. The Organization's management were responsible for preparing the Statement, and I am responsible for expressing an opinion on it, based on evidence collated in my audit.

Audit Approach

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

5. During the biennium my staff carried out financial audits at FAO headquarters and at Field 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; and
- an examination of unliquidated obligations carried forward to 1994-95.

Overall Results

6. 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 the 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.

7. My examination revealed no errors in the final Statement considered material to its accuracy, completeness and validity as a whole. I was able to reach this opinion after FAO had made significant amendments in two areas of the Statement, which my staff had brought to their attention (see paragraphs 27 and 103 to 106).

8. A summary of main findings and recommendations on financial matters from the audit is reported at paragraphs 27 to 29. I have set out the detailed findings of the examination at paragraphs 103 to 112.

Review of Management Matters

9. 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.

10. 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 UNDP financed Field Programme. I have reported a summary of the main findings and recommendations arising from these reviews at paragraphs 11 to 26. The detailed findings from the examination are set out at paragraphs 30 to 102.

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

11. 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 30 to 36).

On Suspense Account Balances

12. 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 37 to 40).

On System Development Standards

13. 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 (paragraph 44).

On System Documentation

14. 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 45 and 46).

On Disaster Recovery Procedures

15. The FAO has now formulated a Disaster Recovery Plan, and I recommend that it implements and tests it as soon as possible; and finalises arrangements for providing emergency support and off-site data storage for key stand-alone computer applications (paragraphs 47 to 48).

On Proposals to Replace the FINSYS/PERSYS System

16. 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 (paragraphs 53 and 54).

OPERATION OF FINANCIAL CONTROLS IN THE FIELD

General Conclusion

17. Around 30 per cent of all expenditure on the UNDP financed Field Programme of the FAO is managed by officers in the field, who have delegated authority from FAO headquarters to authorise and make payments. 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 55 to 57).

On Monitoring of Expenditure

18. 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 62 to 64).

On Monitoring Unliquidated Obligations

19. 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 65 and 66).

On Competitive Tendering

20. 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 projects failed to maintain records of suppliers invited to provide quotations, or to document their comparison of quotation received. I recommend that the FAO require all field projects to provide headquarters with a summary of quotations obtained each time they make a significant purchase (paragraphs 67 to 69).

On Advances to Governments

21. 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 72 to 74).

On Use of Local Suspense Accounts

22. My staff found that some field projects recorded payments against suspense accounts where this was inappropriate, and that in most of the projects 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 75 to 81).

On Accounts Payable

23. 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 transactions and invalid liabilities. It considers, however, that the FINSYS system constrains it from making an early change. I recommend that FAO give high priority to reviewing this accounting practice (paragraphs 82 to 84).

On Control of Physical Assets

24. 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 85 to 90).

On Cash Holdings

25. 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 (paragraphs 91 to 94).

On Financial Training and Guidance For Field Staff

26. 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 95 to 102).

FINANCIAL MATTERS

On Unliquidated Obligations and Accounts Payable

27. My staff's testing of these two areas revealed an unacceptable level of invalid transactions. Following a substantive review of major transactions in these areas, FAO made adjustments totalling \$3.1 million to unliquidated obligations and \$225,000 to accounts payable. I recommend that FAO provide staff with additional guidance on the proper accounting treatment to be followed in these two important areas (paragraphs 103 to 106).

On United Nations Joint Staff Pension Fund

28. 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 107 and 108).

On Inventories

29. Only 145 out of 380 UNDP funded projects had returned year end inventory reports by 28 June 1994. I recommend that the FAO takes firm steps to ensure that all projects provide that the necessary year end inventory report on a timely basis (paragraphs 109 and 110).

DETAILED FINDINGS MANAGEMENT MATTERS

THE COMPUTERISED FINANCIAL AND PERSONNEL SYSTEMS (FINSYS/PERSYS)

30. In my Report on 1990-91 Status of Funds Statement 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.

31. 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. As a result of this action, I was able to place an unqualified opinion on the Statement as at 31 December 1991.

32. 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

33. 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

34. A major constraint upon the successful implementation of the final stages of the FINSYS/PERSYS 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.

35. 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.

36. These measures have continued to be effective throughout the 1992-93 biennium, when delays in processing were significantly reduced.

Suspense Account Balances

37. 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.

38. 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.

39. 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 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.

40. 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 Status of Funds Statement for the 1992-93 biennium.

System Imbalances

41. 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.

42. 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

43. 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

44. 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.

System Documentation

45. 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.

46. 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 revised internal procedures to help ensure that documentation is kept up to date.

Disaster Recovery Procedures

47. 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.

48. During the 1992-93 biennium the FAO engaged outside consultants to prepare a Disaster Recovery Plan. This Plan was substantively completed in early 1994 and appears to provide a sound basis for developing disaster recovery procedures.

Design and Functionality of FINSYS

49. In the course of the 1992-93 biennium the FAO commissioned a Functional Review of the FINSYS computer system. 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.

50. 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; 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

51. 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 has 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.

Absence of Top-level Management Information

52. 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.

Computer Update Arrangements

53. 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 the 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.

54. 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.

THE OPERATION OF FINANCIAL CONTROLS IN THE FIELD

Introduction

55. Through its United Nations Development Programme (UNDP) funded activities, the FAO implements development strategies and provides technical assistance to governments and rural communities. The joint FAO/UNDP activities include more than 400 field projects operating at any one time in more than 100 countries. During the 1992-93 biennium, total expenditure on the joint FAO/UNDP activities amounted to nearly \$250 million. About 30 per cent of this expenditure was met directly in the field.

56. FAO headquarters exercise overall financial control over these 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.

57. FAO headquarters are responsible for setting annual budgets for expenditure to be incurred locally on each project within the context of the overall project budget. Field projects report and substantiate all local expenditure to headquarters through imprest account returns and through the Inter Office Voucher system. More than two thirds of all expenditure relating to these field projects is dealt with directly by headquarters staff.

Scope of the Examination

58. The objectives of my staff's examination were to obtain evidence that FAO continues to exercise adequate financial control over these field activities; and to identify ways in which controls and their cost-effectiveness could be improved.

59. 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 projects are funded through imprests; arrangements for reviewing imprest accounts; local suspense accounts; and accounts payable.
- (c) Control of Assets: how physical assets and cash holdings are controlled and protected.

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

61. In the course of this examination, my staff visited 10 UNDP funded FAO Projects, and seven field offices which have a monitoring and advisory role in relation to these field projects. The visits covered UNDP funded projects located in all the geographical regions in which the FAO operates.

Expenditure Control

Monitoring of Expenditure

62. FAO headquarters provide specific financial information on a monthly basis to each 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.

63. All field projects visited by my staff maintained financial records showing local expenditure against each component of the approved budget or allotment. However only three of the ten 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.

64. My staff identified a number of errors both in the headquarters and local records which could have been detected by field 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 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 its records with the budgetary outturn information provided by headquarters, so as to minimise the risk of material errors remaining undetected.

Monitoring of Unliquidated Obligations

65. 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 provide each field office with a supplementary report of outstanding commitments on a monthly basis.

66. At the field projects visited by my staff, monitoring of unliquidated obligations varied in quality. At some projects 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 for the UNDP projects administered by the FAO included 13 items relating to field operations. Nine of these, or nearly two-thirds, 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 27 and 103 to 106). 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

67. 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 \$5,000 with certain exceptions on technical grounds for which approval must be obtained. The FAO estimates that in total such purchases made in the field by its UNDP projects amounted to \$21 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 \$25,000 can only be made by headquarters procurement staff.

68. All field projects visited by my staff complied with the requirement to obtain competitive bids for purchases over \$5,000. My staff found that, in general, FAO personnel at field projects visited had attempted to obtain quotations for purchases costing under \$5,000. However some projects failed to maintain records of which suppliers had been requested to provide quotations. Only one out of the ten 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 projects commonly only retained records for the supplier eventually chosen. I recommend that the FAO require all field projects to provide headquarters with a summary of quotations obtained for each significant purchase.

69. My staff noted that one project had introduced additional safeguards in 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. This project office contacted the FAO Representatives' office and staff at other projects within the country 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

70. For many field projects, vehicle costs represent a significant element of the local expenditure. The FAO estimates that in total the cost of purchases of vehicles for its UNDP funded field projects amounted to \$5 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 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 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.

71. My staff found that, with very few exceptions, field projects visited had maintained log book records in sufficient detail. However, only a small number of projects 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 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

72. The cost of field projects is normally shared between the UNDP and the recipient government. 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.

73. 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, advances very often remained outstanding for more than 90 days, in some instances for over a year. My staff also identified instances where costs, according to the original project budget, should have been met by the recipient governments but instead were being charged against UNDP funds. I note that in every instance where significant funds were involved, FAO had consulted UNDP Resident Representatives before taking action.

74. 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

75. 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 authorised field project officers. 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.

Imprest Account Returns

76. Each imprest holder is required to account for the imprest placed under his or her responsibility. Imprest account returns from 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. All field projects visited by my staff submitted imprest returns to headquarters on a timely basis.

Local Suspense Accounts

77. 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.

78. 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. UNDP suspense account items were valued at more than \$430,000 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 1. This shows that the objective of clearance within 90 days was often not met.

79. 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 projects recorded payments as suspense account items when they should have been charged immediately to expenditure.

80. 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 1: Locally Recoverable Items: Summary Findings from Field Examination of Imprest Accounts

	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
UNDP Projects	10	1	3	5	1	-	-

81. 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 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 Status of Funds Statement. 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

82. FAO headquarters may authorise a disbursement to be made in the field through a 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 FAO give high priority to reviewing this accounting practice. At the end of the 1992-93 biennium, recorded outstanding UNDP accounts payable for disbursement in the field amounted to \$2.0 million.

83. My staff examined a sample of 20 accounts payable drawn from year end balances for UNDP activities. The results of this test examination indicated that accounts payable in the FAO UNDP Status of Funds statement for 1992-93, although showing a reduction in the overall balance when compared to the 1990-91 biennium, contained a high level of invalid transactions. These findings contributed to FAO's decision to review accounts payable and make adjustments as described in paragraphs 27 and 103 to 106.

84. 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 project 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.

Control of Assets

Physical Assets

85. A central inventory of all UNDP non-expendable equipment is maintained at the FAO headquarters. At 31 December 1993 the total inventory of FAO UNDP funded projects was valued at \$85.8 million. Items are recorded at cost price and charged to the budget of the biennium in which they are purchased. 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;
- (b) each field office and project 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 and project 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.

86. The sample examination carried out by my staff showed that, in general, controls over 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 could not be traced.

87. However the standard of inventory control procedures followed by FAO projects varies considerably. Of those field 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.

88. 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 had not been included in the central inventory record. In general such instances arose because:

- (a) the field 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.

89. 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 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 UNDP Status of Funds Statement.

90. 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 field projects
- (d) assets transferred between projects and offices to be recorded at their original purchase cost 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

91. Each UNDP field 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.

92. 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.

93. Many of the projects visited by my staff did not comply with the Financial Rules and Guidance relating to cash holdings. In particular:

- (a) two of the ten projects visited maintained cash holdings in excess of \$500 over long periods, without the express agreement of the FAO headquarters;
- (b) three projects 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 eight projects;
- (d) the majority of imprest holders authorised replenishment of cash holding without signing and approving all cash payments and receipts vouchers, as required by the FAO Financial Rules.

94. The current level of cash payments does not represent a major element of 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

95. Before taking up post, Officers responsible for field 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 to 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.

96. Financial training for field administrative staff is provided, on site, by the headquarters division responsible for 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.

97. 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, mean 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.

98. 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.

99. 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.

100. I further note that the nature of UNDP's country programmes sometimes leads to the concentration of several field projects, with linked aims, within a relatively restricted geographical area. For example, in one Asian city visited by my staff, they noted that four separate UNDP funded FAO projects were in operation, each provided with a separate administrative staff, and separate imprest accounts. In such circumstances, appointment of a professional grade staff member to run a unit providing common administrative and financial support may offer significant advantages in terms of cost and improved financial control. I recommend that the FAO and the UNDP give consideration to the creation of such units in their future development of country programmes.

Accounting Instructions and Guidance

101. 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 upon 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.

102. 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 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

103. My examination of FAO UNDP Status of Funds Statement 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.

104. Unliquidated obligations represent prospective liabilities arising, for example, from binding contracts or purchase orders issued. My staff's initial examination of a sample of 23 randomly selected unliquidated obligations showed that 9 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 \$3.1 million in the UNDP Status of Funds Statement. The FAO has made appropriate adjustments to the Statement.

105. 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 20 randomly selected accounts payable balances showed that 8 of the items were invalid or incorrectly valued. FAO's subsequent review of the accounts payable balances identified invalid items of \$225,000 on the FAO/UNDP Status of Funds Statement. The FAO has classified these as deferred credits on the balance sheet.

106. 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 FAO/UNDP activities. I recommend that the FAO provide staff with appropriate guidance on the proper accounting treatment to be followed.

United Nations Joint Staff Pension Fund

107. 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.

108. 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

109. I have examined, with satisfactory results, the inventory of non-expendable UNDP 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 \$85.8 million (\$113.4 million in 1991).

110. In my 1990-91 report, I noted UNDP Projects had an improved return of year end inventory reports (79% in 1990). My staff noted that only 145 (38%) of 380 distributed 1993 year end inventory reports had been returned by UNDP projects and checked by 28 June 1994. I recommend that the Organization continue to hasten Field Office returns of inventory reports.

Losses and Writes-off

111. I have examined, with satisfactory results, details of compensation payments, ex-gratia payments, losses and writes-off to the value of \$1,222,614 submitted to me by the Director-General with the UNDP Status of Funds Statement 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.

Common Accounting Standards

112. 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

113. 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

21st July 1994

STATEMENT OF STATUS OF FUNDS ADVANCED TO THE FOOD AND AGRICULTURE
ORGANIZATION BY UNITED NATIONS DEVELOPMENT PROGRAMME 1992-93

OPINION OF THE EXTERNAL AUDITOR

To: The Conference of the Food and Agriculture Organization

I have examined the following Status of Funds Statement I, Schedules 1, 2 and 3 and Notes of the Food and Agriculture Organization as Executing Agency of the United Nations Development Programme 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 Statement and Schedules 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 Organization's stated accounting policies which were applied on a basis consistent with that of the preceding financial period; 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 Status of Funds Statement, as provided for by the Financial Regulations of the Food and Agriculture Organization.

John Bourn

Sir JOHN BOURN
Comptroller and Auditor General,
United Kingdom
External Auditor

21st July 1994

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
UNITED NATIONS DEVELOPMENT PROGRAMME

Financial Statements
for the Financial Period 1992-93

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STATEMENT I

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Status of Funds as at 31 December 1993
(in US dollars)

OPERATING FUND	1992-1993	1990-1991
Balance at 1 January	(15,465,803)	(28,830,638)
Add: Cash drawings from UNDP	108,287,474	201,294,784
IOV's [Note 1]	178,214,755	216,677,367
Other charges/credit (net) [Note 1]	(20,466,988)	(4,988,463)
Miscellaneous income and exchange adjustments (net) [Note 2]	(1,108,638)	838,128
Miscellaneous items refunded to UNDP (net) [Note 2]	525,264	(108,730)
	265,451,867	413,713,086
Less: Expenditure	249,986,064	384,882,448
For projects		
Disbursements [Sch. 1]	215,296,736	333,183,927
Unliquidated obligations [Sch. 1]	5,320,697	21,438,712
For programme support costs [Sch. 1] [Note 3]	26,652,567	45,725,612
A O S [Note 3]	973,439	400,348,251
	248,243,439	—
Balance at 31 December	1,742,625	(15,465,803)
Represented by:		
Cash at banks, on hand and in transit	431,652	14,684,530
Accounts receivable [Note 4]	13,652,687	17,209,785
	14,084,339	31,894,315
Less: Accounts payable [Note 4]	8,167,481	25,921,406
Unliquidated obligations [Sch. 1]	4,174,233	21,438,712
	12,341,714	47,360,118
	1,742,625	(15,465,803)

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

Schedule 1

UNITED NATIONS DEVELOPMENT PROGRAMME

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Expenditure by Source of Funds
for the Biennium ended 31 December 1993
(in US dollars)

Programme Expenditure

<u>Source of Fund a/</u>	<u>Disbursements</u> <u>1992-1993</u>	<u>Unliquidated</u> <u>Obligations as at</u> <u>31 December 1993</u>	<u>Total</u> <u>Expenditure</u> <u>1992-1993</u>
Country IPF	193,422,612	7,253,523	200,676,135
Regional IPF	16,152,469	973,689	17,126,158
Interregional IPF	1,239,787	18,490	1,258,277
Global IPF	373,301	3,556	376,857
Sub-total (Schedule 2)	211,188,169	8,249,258	219,437,427
Special Programme Resources	75,771	-	75,771
Special Measures Fund for LDC	(5,189)	-	(5,189)
Special Industrial Services	-	-	-
IPF Add-on Funds	-	-	-
TSS-1	3,375,847	195,543	3,571,390
TSS-2	153,600	756	154,356
Sub-total (Schedule 2)	214,788,198	8,445,557	223,233,755
Less: Adjustment for unliquidated obligations after closure of accounts	-	3,124,860	3,124,860
Sub-total (Schedule 2)	214,788,198	5,320,697	220,108,895
Government Cash Counterpart Contribution	508,538	-	508,538
Total	215,296,736	5,320,697	220,617,433
Old Regime Projects - Programme Support Costs			26,652,567
AOS			973,439
GRAND TOTAL			248,243,439
			=====
			(Statement I)

a/ Including Cost-Sharing, where applicable.

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Schedule 2
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EXPENDITURE BY COUNTRY
FOR THE BIENNIIUM ENDED 31 DECEMBER 1993
(in US dollars)

UNDP FUNDS (INCLUDING COST SHARING)							TOTAL
IPF	TSS-1	TSS-2	SPR	SM FOR LDC	SIS	OTHERS	
AFGHANISTAN							5,383,137
ALBANIA	5,347,037						59,033
ALGERIA	59,033						727,555
ANGOLA	727,555						3,314,055
ARGENTINA	3,314,055						225,288
ARUBA	225,288						321,851
BAHRAIN	321,851						
BANGLADESH							4,740,660
BARBADOS	4,561,462	179,198					290,449
BELIZE	290,449						23,361
BENIN	23,361						5,564,642
BHUTAN	5,451,965	112,777					1,292,503
BOLIVIA	1,237,466	56,295		(1,258)			1,227,740
BOTSWANA	1,227,740						1,931,344
BRAZIL	2,068,319			(136,975)			2,916,209
BULGARIA	2,916,209						5,374
BURKINA FASO	5,374						5,956,888
BURUNDI	5,908,369	48,519					5,163,354
CAMBODIA	5,041,839	121,515					335,924
CAMEROON	335,924						1,664,165
CAPE VERDE	1,591,063	73,102					(6,035)
CENTRAL AFRICAN REP	(6,035)						1,264,142
CHAD	1,264,142						5,670,884
CHILE	5,566,957	103,927					
CHINA							3,207,513
COLOMBIA	3,063,880	143,633					85,644
COMOROS	85,644						67,356
CONGO	67,356						

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

EXPENDITURE BY COUNTRY
FOR THE BIENNIUM ENDED 31 DECEMBER 1993
(in US dollars)

	UNDP FUNDS (INCLUDING COST SHARING)						TOTAL
	IPF	TSS-1	TSS-2	SPR	SM FOR LDC	SIS	OTHERS
COOK ISLANDS	(674)						(674)
COSTA RICA	156,771						156,771
COTE D'IVOIRE	1,463,346						1,463,346
CUBA	403,629						403,629
CYPRUS	79,835						79,835
DEMOCRATIC P R KOREA	606,583						606,583
DJIBOUTI	14,318	36,559					50,877
DOMINICA	(5,437)						(5,437)
DOMINICAN REPUBLIC							
ECUADOR	203,440						203,440
EGYPT	1,003,423						1,003,423
EL SALVADOR	184,608						184,608
EQUATORIAL GUINEA	896,600						896,600
ERITREA							
ETHIOPIA		138,604					
FIJI	6,210,158						6,348,762
GABON	253,172						253,172
GAMBIA	624,349						624,349
GHANA	167,067						167,067
GREECE	1,502,852	96,792					1,599,644
GRENADA							
GUATEMALA	104,379						104,379
GUINEA	4,699,439						4,699,439
GUINEA-BISSAU	1,638,276	70,041	32,000			(13,700)	1,726,617
GUYANA	1,901,608						1,901,608
HAITI	2,171,024						2,171,024
HONDURAS	1,779,569		29,450				1,809,019
HUNGARY	(47,673)						(47,673)

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UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
EXPENDITURE BY COUNTRY
FOR THE BIENNIIUM ENDED 31 DECEMBER 1993
(in US dollars)

UNDP FUNDS (INCLUDING COST SHARING)							TOTAL
	IPF	TSS-1	TSS-2	SPR	SM FOR LDC	SIS	
INDIA	3,202,136	75,243		(7,479)			3,269,900
INDONESIA	3,476,271						3,476,271
IRAN	2,486,186						2,486,186
IRAQ	(26,491)						(26,491)
JAMAICA							
JORDAN	327,469	56,687					384,156
KENYA	1,942,129						1,942,129
KUWAIT	342,795		4,750				347,545
LAOS	1,223,152	69,204			(1,263)		1,291,093
LEBANON	703,208		1,900				705,108
LESOTHO	1,436,483						1,436,483
LIBERIA	(2,884)						(2,884)
LIBYAN ARAB JAMAHIRIYA	1,869,231						1,869,231
MADAGASCAR	7,774,497	75,705					7,850,202
MALAWI	2,655,715				133,855		2,789,570
MALAYSIA	876,078						876,078
MALDIVES	18,577	47,994					66,571
MALI	4,122,277	34,300					4,156,577
MARSHALL ISLANDS							
MAURITANIA	2,474,696	42,993			1,817		2,519,506
MAURITIUS	110,238						110,238
MEXICO	(47,718)	58,330					10,612
MICRONESIA	395,700						395,700
MONGOLIA	153,895	24,564					178,459
MONTERRAT				(16,727)			(16,727)
MOROCCO	1,330,878	11,818					1,342,696
MOZAMBIQUE	6,234,657	276,502					6,511,159
MYANMAR	4,819,460	14,852					4,834,312
NAMIBIA	649,805		4,750				654,555

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
EXPENDITURE BY COUNTRY
FOR THE BIENNIIUM ENDED 31 DECEMBER 1993
(in US dollars)

UNDP FUNDS (INCLUDING COST SHARING)							TOTAL
	IPF	TSS-1	TSS-2	SPR	SM FOR LDC	SIS	
NEPAL	1,097,064	107,372					1,204,436
NICARAGUA	196,311	66,821		49,358			312,490
NIGER	7,393,180						7,393,180
NIGERIA	707,520	37,689					745,209
OMAN	1,293,993						1,293,993
PAKISTAN	11,206,686	174,854					11,381,540
PAN - AFRICAN CONGRESS	530,827						530,827
PANAMA	(11,908)						(11,908)
PAPUA NEW GUINEA	544,102						544,102
PARAGUAY							
PERU	325,742						325,742
PHILIPPINES	2,779,241	67,094					2,846,335
POLAND	35,379						35,379
QATAR							
REPUBLIC OF KOREA	100,427						100,427
ROMANIA	(527)						(527)
RWANDA	2,792,016	101,745					2,893,761
SAINT KITTS & NEVIS	538,637			52,968			591,605
SAINT LUCIA							
ST. VINCENT & GRENADINES	63,291						63,291
SAMOA	966,416						966,416
SAO TOME & PRINCIPE	174,432		9,500				183,932
SAUDI ARABIA	638	63,665					64,303
SENEGAL	3,538,155						3,538,155
SEYCHELLES	(2,916)						(2,916)
SIERRA LEONE	1,736,574						1,736,574
SOLOMON ISLANDS							
SOMALIA	359,850			4,676			364,526

UNITED NATIONS DEVELOPMENT PROGRAMME

Schedule 2
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FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

EXPENDITURE BY COUNTRY
FOR THE BIENNium ENDED 31 DECEMBER 1993
(in US dollars)

	IPF	UNDP FUNDS (INCLUDING COST SHARING)					OTHERS	TOTAL
		TSS-1	TSS-2	SPR	SM FOR LDC	SIS		
SRI LANKA	1,778,705							1,778,705
SUDAN	2,810,782	59,505						2,870,287
SURINAME	54,920							54,920
SWAPO - NAMIBIA								
SWAZILAND	885,222							885,222
SYRIAN ARAB REPUBLIC	260,099							317,955
THAILAND	704,878							717,034
TOGO	1,022,446	57,856	12,156					1,022,446
TONGA	243,284							243,284
TRINIDAD AND TOBAGO	150,265							150,265
TUNISIA	616,272							616,272
TURKEY	708,838							708,838
TURKS & CAICOS ISLANDS								
TUVALU	(4,986)							(4,986)
U.S. TRUST TERRITORIES	(1,537)							(1,537)
UGANDA	5,341,024	40,052						5,381,076
UNITED ARAB EMIRATES								
UNITED REP TANZANIA	7,071,110							
URUGUAY	422,810				12,335			
VANUATU	(528)							(528)
VIET NAM	2,945,092	179,191						3,129,033
YEMEN	2,308,239	76,027	4,750					2,384,266
YUGOSLAVIA (ex)	(2,565)							(2,565)
ZAIRE	6,455,512							6,455,512
ZAMBIA	2,401,728							2,401,728
ZIMBABWE	2,884,090							2,884,090
SUBTOTAL COUNTRY PROJECTS	200,676,135	3,001,025	135,356	82,796	(5,189)			203,579,017

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
EXPENDITURE BY COUNTRY
FOR THE BIENNIIUM ENDED 31 DECEMBER 1993
(in US dollars)

Schedule 2
page 6 of 6

UNDP FUNDS (INCLUDING COST SHARING)							TOTAL
	IPF	TSS-1	TSS-2	SPR	SM FOR LDC	SIS	
AFRICA	7,847,284	153,113					8,000,397
ASIA	6,208,593	79,770					6,288,363
EUROPE	200,739	28,636					229,375
LATIN AMERICA	42,057	246,443		(2,490)			286,010
NEAR EAST	2,827,485	13,772					2,841,257
SUBTOTAL REGIONAL PROJECTS	17,126,158	521,734		(2,490)			17,645,402
GLOBAL	376,857	48,631					425,488
INTERREGIONAL	1,258,277		19,000	(4,535)			1,272,742
SUB-TOTAL	219,437,427	3,571,390	154,356	75,771	(5,189)	0	223,233,755
Adjustment for unliquidated obligations after closure of accounts	(3,124,860)						
TOTAL EXPENDITURE	216,312,567	3,571,390	154,356	75,771	(5,189)	0	(3,124,860)
PSC / AOS	27,608,208						220,108,895
GRAND TOTAL	243,920,775	3,571,390	154,356	75,771	(5,189)	0	247,717,103
DISBURSEMENTS	211,188,169	3,375,847	153,600	75,771	(5,189)	0	214,788,198
UNLIQUIDATED OBLIGATIONS	8,249,258	195,543	756	0		0	8,445,557
Less: Adjustment for unliquidated obligations after closure of accounts	(3,124,860)						(3,124,860)
	5,124,398	195,543	756	0	0	0	5,320,697
TOTAL EXPENDITURE	216,312,567	3,571,390	154,356	75,771	(5,189)	0	220,108,895

Schedule 3

UNITED NATIONS DEVELOPMENT PROGRAMME
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Expenditure by Component
for the Biennium ended 31 December 1993
(in US dollars)

Programme Expenditure

	<u>Disbursements</u>	<u>Unliquidated Obligations</u>	<u>Total Expenditure 1993</u>
Expert months	8,526 =====	- =====	8,526 =====
Expert costs	108,360,040	1,569,557	109,929,597
All other personnel costs	30,592,371	793,907	31,386,278
Subcontracts	3,532,044	1,612,141	5,144,185
Training	21,610,829	712,838	22,323,667
Equipment	30,323,025	3,076,516	33,399,541
Miscellaneous	16,840,442	484,299	17,324,741
TSS-1	3,375,847	195,543	3,571,390
TSS-2	153,600 -----	756 -----	154,356 -----
	214,788,198	8,445,557	223,233,755
Less: Adjustment for unliquidated obligations after closure of accounts	- -----	3,124,860 -----	3,124,860 -----
T O T A L	214,788,198 =====	5,320,697 =====	220,108,895 =====

Note: Excludes GCCC

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

NOTES TO THE FINANCIAL STATEMENTS**Summary of Significant Accounting Policies**

The Financial Statements reflect the application of the following significant accounting policies:

1. Accounting Period

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

2. Accounting Convention

The Financial Statements of the Programme have been prepared under the historic cost convention and combine both the cash and accruals bases of accounting.

3. Translation Policy

The Financial Statements of the United Nations Development Programme are expressed in United States dollars. Cash holdings denominated in currencies other than United States dollars are translated at the U.N. operational rate of exchange (which approximates to the market rate) in effect at 31 December 1993. An exchange gain or loss which arises on translation is included in expenditure for the current period, except that where the project cannot be determined, the charge is made to Miscellaneous Income.

Income and expenditure items in currencies other than United States dollar are translated at the U.N. operational rates of exchange in effect at the date of the transaction.

4. Recognition of Income and Expenditure

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

a. Income

- i) Contributions, which are shown as CASH DRAWINGS if received by the Programme from the UNDP and as IOVS and OTHER CHARGES if paid directly by the UNDP or other UN Agencies, as requested by the Organization, are recognized as income when received.
- ii) Miscellaneous Income is accounted for on a cash basis, except for bank interest and investment income which are accrued in the year to which they relate.

b. Expenditure

Expenditure includes:

- i) disbursements with regard to the project budgets for the current biennium;
- ii) outstanding obligations defined as prospective liabilities based on the following criteria:

- Experts and other project personnel costs of contractual services rendered to the end of the current year;
- Travel costs of travel which commenced before the end of the current year;
- Equipment full costs of purchase orders or signed contractual agreements issued before the end of the current year;
- Training costs incurred for fellowships to the end of the current year; full costs of training activity held during the year or commenced in the current year to end in the next year;
- Sub-contracts payments falling due in the current year according to the terms of the contract or payment schedule; and
- Miscellaneous costs of events occurred, goods or services placed before the end of the current year;

- iii) any excess or shortfall in the settlement of amounts reported in the previous biennium as outstanding obligations.

c. The full cost of equipment is charged to the appropriate project in the year it is purchased.

d. Staff costs directly relating to a project are charged to that project. Monthly salaries, social security and pension contribution are charged at cost. Other staff costs are charged at an actual average cost per person.

e. Terminal payments to project staff and repatriation costs are charged when incurred.

Other Notes to the Financial Statements

1. Operating Fund

The Organization's project delivery as Associated/Implementing Agency increased from US\$ 12.5 million in 1990-91 to US\$ 28.2 million in 1992-93. The transfer of these expenditures to the respective Executing Agencies are recorded under the Other charges/credit section of the Operating Fund.

At year end the Organization's Operating Fund is aligned with the UNDP's accounts. The major item included in accounts receivable which reflect the reconciliation process is the US\$ 4.8 million of unprocessed IOVs and US\$ 1.6 million of expenditures incurred by FAO as Associated/Implementing Agency.

2. Miscellaneous Income and Items refunded to UNDP

The amounts of US\$ (1,108,638) in Miscellaneous Income and US\$ 525,264 of Miscellaneous Items refunded to UNDP in Statement I consist of:

	<u>US\$</u>
<u>Miscellaneous Income and Exchange Adjustments</u>	
Bank interest income/Bank charges (net)	292,029
Net exchange gains/losses on revaluation and other	(1,570,855)
Other income items - Net proceeds on sale of fishing vessel	<u>170,188</u>
Total	(1,108,638) =====

Miscellaneous Items refunded to UNDP

For financially completed projects:

- Savings/overspendings from liquidation of prior years' obligations	520,732
- Miscellaneous charges and refunds	<u>4,532</u>
Total	525,264 =====

3. Administrative and Operational Services (AOS)
and Programme Support Costs

The amount of US\$ 973,439 for Administrative and Operational Services has been calculated based on the established reimbursement rates on the specific clusters of services delivered by the Organization during 1992 and 1993 on the New Regime projects.

The total Programme Support Costs for the Old Regime projects of US\$ 26,652,567 shown in Statement I has been calculated as follows:

US\$

Computation of Programme Support Costs

Programme Support Costs relating to:

-	IPF and Cost-Sharing, Special Programme Resources, LDC, SIS and IPF add-on-Funds at 13% <u>a/</u>	26,703,053
-	Government Cash Counterpart Contributions <u>b/</u>	<u>17,798</u>
	Sub-total	26,720,851

Less: Programme Support Costs relating to Miscellaneous Items refunded to UNDP

68,284

Programme Support Cost waivers

-

Sub-total

68,284

Total Programme Support Costs - 1992/93

26,652,567
=====

a/ As per Governing Council decision 87/49,
which re-affirmed paragraph (2c) of decision 80/44

b/ At 3.5%

4. Accounts Receivable and Payable

a) The amount of US\$ 13,652,687 under accounts receivable in Statement I consists of:

	<u>US\$</u>
- Amount due from other Programmes	1,712,520
- Salary and other personnel advances	383,200
- Education Grant advances	716,424
- Travel advances	1,034,208
- Advances to Fellows	355,539
- Deferred charges to projects	634,118
- Locally Recoverable Items	432,782
- UN current account	100,519
- Due from other Agencies	999,658
- Other	<u>7,283,719</u>
Total	13,652,687 =====

Salary and other personnel advances are shown net of a provision for doubtful debts of US\$ 123,836 to cover overpayments and unrecovered advances to former staff members.

b) The amount of US\$ 8,167,481 in Accounts Payable in Statement I consists of the following:

	<u>US\$</u>
- Unliquidated Obligations - prior years	1,789,568
- Accrued salaries	1,825,827
- Travel Expense Claims payable	541,547
- Project Income	654,028
- UN current account	448,572
- Retention from suppliers	9,640
- Deferred Credits to Projects	225,000
- Other	<u>2,673,299</u>
Total	8,167,481 =====

5. Furniture, Equipment and Automobiles

The cost of non-expendable equipment carried in the inventory records on behalf of UNDP was US\$ 85.8 million.

During the biennium, arrangements were finalized for the transfer to Government, upon the closure of completed projects, of equipment which had originally cost US\$ 38.3 million.