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FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS ROME

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FINANCIAL REPORT AND STATEMENTS: VOLUME II

UNITED NATIONS DEVELOPMENT PROGRAMME 1988-89

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Note: This document is being submitted to the Finance Committee at its Sixty-ninth Session. The Committee's comments thereon will be found in Document CL 98/18. It is also being submitted to the Ninety-eighth Session of the Council.

## FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMMEINTRODUCTION

1. This report and the attached Financial Statements reflect the Food and Agriculture Organization's participation in the United Nations Development Programme (UNDP) during the biennium 1988-1989, pursuant to Resolution 15/81 of the Twenty-First Session of the Conference of FAO.
2. FAO participates in the execution of UNDP projects as Executing Agency or as Associated/Cooperating Agency using funds provided by UNDP partly from their own resources and partly from the host Governments' contributions.
3. The funds provided by UNDP are budgeted and accounted for under three main programme groups: (i) Indicative Planning Figures (which also include any Government Cost Sharing received by UNDP), (ii) Special Programme Resources and (iii) Special Measures for Least Developed Countries. These budgets do not include Programme Support Costs, which are reimbursed separately from UNDP funds.
4. In addition, some of the funds used for local project expenditures are also channeled from the host government via UNDP to FAO; these expenditures are reported as Government Cash Counterpart Contributions; they are budgeted including Programme Support Costs.
5. Statement 1 shows the resources made available to FAO by UNDP and the expenditure incurred by FAO during the 1988-89 biennium. Schedule 1 shows the total expenditure charged to projects by source of fund, and programme support costs. Schedule 2 summarizes expenditure by country distinguishing between disbursements and unliquidated obligations.

BUDGETS (ALLOCATIONS)

6. A comparative statement of the project budgets approved during the biennium, together with the expenditures during those years and the unspent balances is shown below. The figures indicated comprise the UNDP allocations, exclusive of programme support costs while the Government Cash Counterpart Contributions include programme support costs.

	<u>1986-87</u> US\$'000	<u>1988-89</u> US\$'000
Unspent Balance at the beginning of the biennium	222,612	275,045
Budgets approved during the biennium	<u>317,307</u>	<u>341,939</u>
	539,919	616,984
Less: Expenditures (delivery)	<u>264,874</u>	<u>322,466</u>
Unspent Balance at the end of the biennium	275,045	294,518
	=====	=====



PROJECT DELIVERY

7. The accounting policies used in determining project delivery are discussed on page 20; delivery includes (i) cash disbursements and (ii) unliquidated obligations, constituting legal liabilities incurred. A breakdown of project delivery into these two constituent parts and by main programme groups is shown in Schedule 1; the detailed analysis, by recipient countries and by main programme groups is presented in Schedule 2.

8. The table below presents the comparative profile of project delivery, by main expenditure components, of the last two biennia:

UNDP Project Delivery

	<u>1986-87</u>	<u>1988-89</u>
<u>UNDP Contributions</u> (excluding Programme Support Costs)	US\$'000	US\$'000
Project Personnel	139,069	170,478
Sub-Contracts	9,546	4,938
Training	28,214	41,592
Equipment	64,251	80,080
Miscellaneous	<u>16,067</u>	<u>22,191</u>
	257,147	319,279
Adjustment to unliquidated obligations, recorded after the closure of the 1984-85 accounts	<u>5,000</u>	<u>          </u>
	262,147	319,279
<u>Government Cash Counterpart Contribution</u> (including Programme Support Costs)	<u>2,727</u>	<u>3,187</u>
Total Project Delivery	264,874	322,466
	=====	=====

9. For 1988-89 the unliquidated obligations included in the project delivery above were \$27.9 million for UNDP Contributions. These include obligations contracted against the 1988-89 project budgets.

10. The other legal commitments incurred against future years' budgets were approximately \$12.1 million; of this figure \$8.4 million related to training, and \$3.2 million to personnel.

11. All local project cash expenditure reports received in time at Headquarters before the closure of the accounts are reflected in project delivery; Only two reports from field projects were received late. Project cash disbursements included in these reports are estimated to amount to approximately US\$6,000 and will be included in the accounts for 1990.

COST OF FIELD EXPERTS' SERVICES

12. Project personnel costs constitute the greatest component of project delivery, as shown in paragraph 8. Within that component, the cost of field experts is the largest item. Expert costs, in turn, can be sub-divided into (i) payments made at regular intervals (salary, social contributions etc.) and (ii) "common staff costs", (appointment and repatriation travel, termination indemnities, etc; see also paragraph 5 in the description of Accounting Principles, on page 20).

13. The common staff costs represented 23.6% and 23.3% of total costs in 1988 and 1989, respectively.

14. The costs of experts showed the following trend over the past five years:

	<u>Average Salary and Common Staff Costs per staff-month</u> US\$	<u>% Increase over previous year</u>
1985	6,624	(1.3)%
1986	7,084	6.9%
1987	7,770	9.7%
1988	8,132	4.7%
1989	8,413	3.5%

PROGRAMME SUPPORT COSTS

15. FAO receives from UNDP reimbursement for the "support" of projects which the FAO Regular Programme provides to the FAO/UNDP Programme.

16. In accordance with the decision of the UNDP Governing Council adopted at the General Assembly and agreed by the FAO Conference, as from 1 January 1982 FAO received 13% reimbursement on project delivery from UNDP contributions. The rate of reimbursement of 13% was applied for 1988 and 1989.

17. On Government Cash Counterpart Contributions the standard rate of reimbursement is 3.5%.

18. For the 1988-1989 biennium, FAO agreed to waive a part, or all, of the Programme Support Costs of two projects funded from UNDP contributions. Based on the particular situation of the projects concerned, the amount waived was US\$778 for the biennium.



OPERATING FUNDS FROM UNDP

19. The financial resources required to finance the activities of the FAO/UNDP Programme are put at FAO's disposal by UNDP; these cover not only the project expenditure but also the net assets possessed by the programme. Statement I shows (i) the movement during 1988-89 of the resources placed at the FAO/UNDP programme's disposal and (ii) the summarized position of the programme's assets and liabilities at the end of 1989.

20. From Statement I, the Miscellaneous income and exchange adjustments (net) charged to the FAO/UNDP Programme's Operating Fund represent losses on exchange, bank interest earned and the net gain from the operations of the fishing fleet managed by FAO on UNDP's behalf.

21. The Miscellaneous items refunded to UNDP by way of credits to the Operating Fund comprise refunds of earlier expenditures obtained by FAO on closed projects and other non-project related income.

22. The major items included in accounts receivable are fellowship advances of US\$1.9 million and salary and travel advances of US\$2.1 million.

23. The main items among accounts payable are amounts due to the other Programmes of US\$9.9 million, unliquidated obligations carried over from previous years, \$3.06 million and accrued report preparation costs, \$1.6 million.


FUNDS FROM GOVERNMENT SOURCES

24. Apart from the funds reflected in these accounts, some of the Organization's experts in the field were in possession of minor amounts held by them in a personal capacity on behalf of Governments of the countries in which they were working. Expenditures from these sums are accounted for directly to the Governments concerned by the individual experts.

FURNITURE, EQUIPMENT AND AUTOMOBILES

25. The cost of non-expendable equipment carried in the Organization's inventory records on behalf of UNDP was \$105.2 million. This amount is subject to reconciliation with inventory reports from the field. It includes items paid for but not yet delivered to projects.

26. During the biennium, arrangements were finalized for the transfer to governments and agencies, upon the closure of completed projects, of equipment which had originally cost US\$25 million.



Edouard Secoma  
Director-General

REPORT OF THE EXTERNAL AUDITOR ON THE STATEMENT SHOWING AS  
AT 31 DECEMBER 1989 THE STATUS OF FUNDS ADVANCED TO THE  
FOOD AND AGRICULTURAL ORGANIZATION BY THE UNITED NATIONS  
DEVELOPMENT PROGRAMME

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REPORT OF THE EXTERNAL AUDITOR ON THE STATEMENT SHOWING AS  
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FOOD AND AGRICULTURAL ORGANIZATION BY THE UNITED NATIONS  
DEVELOPMENT PROGRAMME

GENERAL

1. The Statement and Supporting Schedules relating to the participation of the Food and Agriculture Organization (FAO) in the United Nations Development Programme (UNDP) for the financial period ended 31 December 1989 are in the form prescribed by the UNDP. My audit of these has been carried out in conjunction with my audit of the FAO Regular Programme and subsidiary funds of the Organization. The common account systems have been examined and tested having regard to the work of the Office of Internal Audit, Inspection and Management Control.
2. During the audit of the UNDP Status of Funds Statement for the 1988-89 biennium a number of matters arose which I have drawn to attention in this Report. These matters are losses (paragraph 6); a review of unliquidated obligations at the end of the financial period 1988-89 (paragraphs 7 to 9); and the reconciliation of FAO accounts with UNDP Headquarters' records (paragraphs 10 and 11).
3. Also during the biennium, as part of their continuing review of the FAO's operational activities, my staff examined the arrangements and procedures for the procurement of field equipment and services. This review covered all FAO field activities including those administered on behalf of UNDP. My detailed findings from this review are set out in my Report on the accounts of Food and Agriculture Organization for the 1988-89 biennium. At paragraphs 12 to 21 of this report I include a summary of the main conclusions and recommendations resulting from this review.
4. In addition it is my policy to follow-up the response made to previous External Audit Reports over an appropriate cycle and my staff have therefore reviewed the progress made by the FAO in enhancing the administration of UNDP projects (paragraphs 22 to 35) and on inventory control (paragraphs 36 to 39) on which I made a number of recommendations in 1984-85 and 1986-87.
5. My observations on all the matters contained in this Report, as well as a number of minor questions not reported herein, were communicated to the FAO which has confirmed the facts on which my observations and conclusions are based and has provided explanations and answers to my queries.



## LOSSES ETC

6. I have examined details of compensation payments, losses and writes-off, valued at \$569,510 submitted to me by the Director-General in accordance with Financial Regulation 10.4. I am satisfied with the information and explanations which I have obtained about these cases and I have no observations to make.

## REVIEW OF UNLIQUIDATED OBLIGATIONS

7. In accordance with UNDP Financial Regulations the FAO accounts include, as unliquidated obligations, those items which may be defined as valid liabilities at the end of the accounting period but for which no payments have yet been made. At my staff's request the FAO carried out a review of unliquidated obligations at the end of 1989 to confirm the validity of the balances disclosed. As a result of this review a total of 251 items previously listed as unliquidated obligations were cancelled.

8. My staff examined the reasons for the cancellations and found that 107 items related to residual balances no longer required. This seemed, to my staff, to stem from delays in carrying out review procedures which should normally have identified these items. I recommend that in future, unliquidated obligations are reviewed more regularly. If unnecessary obligations are retained in the accounting records project expenditure will be overstated until they are subsequently surrendered.

9. My staff noted that in 40 of the 251 cases, items were cancelled because the expenditure which the obligation had been established to cover had been charged directly to the accounting records without clearing the obligation. Under the FAO accounting and budgetary systems a properly authorised obligation represents one of the main expenditure controls. The posting of payments directly to the accounting records weakens the effectiveness of this control. The Organization informed my staff that the new FINSYS computerised accounting system will provide closer control of the charging of amounts, over certain values, to the accounts unless a properly authorised obligation exists.

RECONCILIATION OF FAO ACCOUNTS WITH  
UNDP HEADQUARTERS RECORDS

10. The Local Resident Representative for UNDP makes payments and maintains accounting records for invoices settled on behalf of the FAO and other Executing Agencies. The Executing Agency records these payments in their accounts, and subsequently the UNDP Headquarters provides each Agency with a monthly statement, detailing all expenditure by their Resident Representatives. The Executing Agency should then reconcile this statement with its own records to ensure that they record only those charges which relate to UNDP projects under their control.



11. My staff found that reconciliations were not kept up to date between May and December 1989 with the result that there was a cumulative discrepancy of \$1.2 million between the FAO and UNDP records at the end of the financial period. The FAO has now reconciled the two sets of records and corrected several coding errors within the former FAO computer system. Had reconciliations been completed regularly discrepancies of this type and magnitude would have been identified and corrected much earlier. To ensure the continuing completeness and accuracy of the FAO records I recommend that reconciliations are carried out on a monthly basis. The Organization informed me that such errors do not exist in the new computer accounting system, FINSYS, which came into operation for the 1990-91 biennium.

#### PROCUREMENT OF FIELD EQUIPMENT AND SERVICES

##### Introduction

12. During the 1988-89 financial biennium the FAO's Field Programme expenditure, funded under the Technical Co-operation Programme (TCP), Trust Funds and the UNDP, was \$643 million. Of this some \$167 million was spent on the purchase of field equipment and related services. The purchase and delivery of equipment to projects are complex operations involving the participation of the Field, FAO Headquarters, other Agencies and private sector manufacturers and suppliers. In determining its general procurement policies the FAO have to take account of the interests of Member Nations, Donors and the recipient Governments.

13. My staff have examined the FAO's procedures for planning equipment inputs to projects and reviewed the two main methods of purchasing. Most purchasing is carried out by the central Purchasing Branch but lower value items can be ordered directly by project staff in the Field. To gain a fuller appreciation of the purchasing process my staff carried out a review of the FAO Headquarters procedures and controls and made visits, in consultation with the FAO, to four countries.

14. My staff concluded that the FAO had a well established procurement system that generally worked effectively. Whilst recognising the need for a flexible approach to purchasing to cater for a wide range of equipment and the many diverse and difficult circumstances under which projects operate, my staff considered that, although several improvements had already been implemented and others envisaged, further enhancements to procedures could be made. The detailed findings of the review are set out in my Report on the accounts of the Food and Agriculture Organization for the 1988-89 biennium. In the following paragraphs I present a summary of the main conclusions from this review.



### Planning

15. Planning equipment requirements is first considered as part of the project formulation stage. Whilst recognising the need for some flexibility in procedures to cope with the wide range of projects, my staff concluded that more attention could be paid to detailed planning of equipment requirements and that such requirements and cost estimates should be kept as up to date as practicable. To build on the FAO's initiatives in this area guidelines could be established to ensure more involvement of procurement expertise, at the outset, in the definition of equipment needs and specifications. The Organization informed me that recently such consultations with Purchasing Branch have taken place and that detailed guidelines for equipment formulation are under preparation and will be issued shortly. In my view such enhancements would lead to more rational and accurate equipment budgets being drawn up and contribute to achieving improved purchasing, with timely delivery of suitable equipment to projects.

### Headquarters Purchasing of Field Equipment

16. My staff found that the Purchasing Branch operated effective procedures and controls designed to ensure that equipment purchases were usually subject to full international competitive bidding. Although quality, maintainability and delivery are taken into account in evaluating suppliers' bids price is usually paramount. However, the process is generally long drawn out and there are several areas where improvements could be made:-

- (a) in cases where the Field have carried out preliminary technical and cost evaluations in drawing up Purchase Requisitions this information should be passed to the Purchasing Branch so that they can make use of it ;
- (b) steps should be taken to produce standard specifications for many categories of ordinary equipment, tailored as necessary to the varying operational circumstances prevailing in different countries. In the case of more specialist equipment I recognise that standardisation is not always possible;
- (c) the FAO should explore the possibility of holding more periodic competitions with suppliers to establish longer term and fixed prices for common and regularly ordered units of equipment . Earlier consultations between the Operating Divisions and the Purchasing Branch might assist the latter in identifying future equipment requirements for this purpose; and



- (d) in addition to speeding up the procurement process, the time needed for it should be disseminated widely to allow more realistic planning of lead times.

#### Field Purchasing

17. My staff were impressed by the efforts made by Field staff to comply with the FAO's purchasing objectives and procedures, and at the same time overcome some of the problems associated with operating in areas of the world where there may not be the infrastructure to support extensive procurement activities. However, they identified several aspects of Field purchasing which could be enhanced:-

- (a) there was a need for all projects to have access to more frequent and up to date purchasing data on international suppliers and their equipments ;
- (b) for vehicles purchased under the UNDP standardisation scheme run through the Inter Agency Procurement Services Organization (IAPSO), provided the budget appropriation has been approved and funds are available, there could be a higher financial limit for Field purchases made direct from manufacturers;
- (c) there was scope for reducing local overhead costs through the greater co-ordination of some purchases; and
- (d) the introduction of standard equipment specifications (paragraph 16b) would assist project staff, especially in cases where detailed knowledge of purchasing requirements was not readily available on the project site .

#### Delivery of Equipment

18. Considerable problems and delays, outside the direct control of the FAO, are often experienced in achieving timely delivery of equipment to project sites. However, my staff considered that opportunities did exist for overcoming some of the difficulties associated with clearing equipment through ports of entry or across the borders of recipient countries. In particular there could be more coordinated efforts at the national level between the FAO and UNDP Representatives. Guidance notes could also be provided on how to deal most effectively with the customs and import procedures operating in different countries. There was also scope for greater coordination between FAO and UNDP representatives.

#### Purchasing Spares

19. Maintaining and servicing equipment is a key factor in the success of many projects. FAO staff have adopted a variety of approaches to reduce the problems which occur



in this area. However, two further desirable improvements were identified:-

- (a) extending the system of purchasing some important vehicle spares at the time the initial order is placed to other items of equipment; and
- (b) the development of spares listings, drawn up by reference either to the supplier or an independent consultant.

#### Performance Monitoring

20. Although the FAO carry out evaluations of the design, implementation and effectiveness of projects, as well as requiring regular progress Reporting, they do not operate a formal monitoring procedure for assessing the performance and reliability of various equipments. The FAO consider that more detailed monitoring may not be cost effective and that the counterpart Government entities are best suited to monitor equipment performance. However, as equipment is often a key factor in the successful implementation of projects, my staff considered that a simple procedure could be developed by the FAO for collecting more basic data on purchasing and reliability. This could be incorporated into the existing system by which progress on projects is regularly reported. Such information could inform future equipment formulation and tendering decisions.

#### General

21. The intention of my conclusions and recommendations is to enhance existing procedures and, through them, the efficiency with which equipment is provided for Field projects. I recognise that any redrawing of the balance of responsibilities between the Field and Headquarters is dependent on decisions relating to a wider area than procurement alone. For example the recent FAO Group of Experts' Report on the 'Review of Certain Aspects of FAO's Goals and Operations' recommended strengthening the FAO's Country Representations and various other Field operations which, if implemented, could have an impact on the procurement process.

#### **FOLLOW-UP OF 1986-87 REPORT ON ADMINISTRATION OF UNDP PROJECTS**

22. In my Report accompanying the UNDP Financial Statements 1986-87, I made a number of observations and comments on the FAO's administration of UNDP projects and recommended that procedures would be enhanced if the Organization took certain steps in addition to those that were already being taken. It is my policy to follow-up the response made to my previous Reports and therefore my staff have reviewed the progress made and the results are set out in the following paragraphs.



23. The review was carried out by interviewing FAO staff at Headquarters, examining the procedural changes that have been introduced and the documentation for a sample of projects. Field visits were not undertaken as the review was solely concerned with the formulation and evaluation of projects.

24. In my previous Report I recognised that the Organization have not only to take account of the wishes of UNDP and governments but also the demanding and changing conditions encountered in the Field. In the 1988-89 biennium the FAO expenditure, on behalf of UNDP, including support costs, was some \$360 million for around 900 projects.

25. I noted in my previous Report that new improved guidelines for the formulation of UNDP Projects had been introduced in April 1988. My staff examined the documentation for a sample of projects formulated and approved under the revised arrangements and found that the guidelines were generally being followed. In all cases the revised Project Document, incorporating an explicit relationship between objectives, outputs and activities, had been completed and standard work plans produced. However, in two cases the Formulation Framework, which is a systematic analysis undertaken at the outset to identify key issues and major inputs to the project proposal, had not been carried out. The Organization told my staff that the Project Formulation Framework often requires resources which they consider are not always readily available. Furthermore, the Organization indicated that different approaches were taken by individual countries with regard to the requirements for the preparation of a Project Formulation Framework and that once a decision is taken to formulate a project the preparation of the Project Formulation Framework is not always necessary or requested by UNDP.

26. In 1988 I Reported that PROSYS, a computerised system for Headquarters monitoring of Field programmes and projects, was being developed. However, in September 1988, shortly after my Report was published, work on PROSYS was suspended due to financial constraints and the concurrent demands arising from the introduction of the computerised financial and personnel systems, FINSYS and PERSYS; although further enhancements have been made to the PIPELINE Computerised System (PCS) maintained by the Field Programme Development Division. In the interim, two working groups have been set up to review all Field Programme management procedures and information systems, of which PROSYS was to be one. The review of procedures has resulted in the preparation of an action plan, the implementation of which is to be monitored by the Field Programme Committee. However, besides the approval of an overall strategy, little progress appears to have been made towards establishing an integrated information system to monitor and analyse data relating to the Field Programme as a whole. The Organization informed me that



they have now identified an extra-budgetary source of funding to enable development of the system to get underway again.

27. In my previous Report I commented on a number of procedural problems concerning contract purchasing on those UNDP projects reviewed. I noted that a review of the FAO Manual Section dealing with contract activities had been completed but was under further consideration. The revised Manual Section has yet to be published.

28. In 1988 I Reported on the revised procedures for project monitoring and Reporting which had been developed by UNDP in consultation with executing agencies. This included a move to annual Reporting with Project Directors completing Project Performance Evaluation Reports (PPER). In addition I Reported that the FAO had decided to maintain a simplified six monthly Reporting system in line with the rest of the Organization. At the time of this review there had been an improvement since 1988 in the timeliness of the receipt of Progress Reports. My staff found that in one Department some 90 per cent of projects had returned Progress Reports within one month of the end of the Reporting period.

29. In 1988 I made a number of recommendations for strengthening project evaluation, which involves an assessment of the design, implementation and effectiveness of projects by persons not directly concerned with their formulation or implementation. Of the 166 project evaluation missions undertaken in the biennium, the Evaluation Service took part in 24, which represents an increase over the previous biennium. Whilst there was a shift towards achieving a more even distribution of the Evaluation Service activity between UNDP and Trust Fund Projects, the number carried out on UNDP projects increased to 75 per cent of all project evaluation missions this biennium compared with 71 per cent of the 139 project evaluation missions carried out in the 1986-87 biennium. Whilst I recognise that it is not always up to FAO to decide on UNDP Project evaluations, I have recommended in my Report on the Regular Programme that steps be taken to ensure a more even distribution of all evaluation activity between Trust Funds and other Field Projects.

30. Plans for project evaluations are now regularly prepared by the Operating Units. The Evaluation Service review these plans and draw up, in consultation with the Units, a yearly programme of projects which are to be evaluated with the participation of their staff. For evaluations of programmes, involving a number of projects, the planning and organization is handled by the Evaluation Service. The FAO consider that as project evaluations cover the operational management needs of projects, it is appropriate that the Operations Units coordinate the planning and organization of most project evaluations. I previously recommended that in order to play a more



comprehensive role in drawing up plans for and carrying out evaluations the independent Evaluation Service should be strengthened. At the time of my staff's review the service had a complement of 15 posts of which 10 were Professional posts. Four of the Professional posts (40 per cent) were vacant but steps were being taken to fill them.

31. The Organization told my staff that attempts are being made to improve the quality of evaluation mission reports by setting at the outset clearer Terms of Reference. The Evaluation Service are participating in a training course offered by Personnel Division for National Project Directors who together with FAO project staff, are consulted by evaluation missions. However, I note that the course of Monitoring and Evaluation Techniques for Headquarters staff has been suspended. This decision was taken because the FAO considered that staff would first need training in project formulation work before they could carry out more difficult monitoring and evaluation reviews. The suspension of the course is of concern, as about 86 per cent of evaluation missions in 1988-89 were carried out by non-Evaluation Service staff. The Organization informed me that training in these areas is under review and that resources permitting monitoring and evaluation courses would be resumed.

32. In 1988 I recommended that the Organization should improve the use made of the findings of project evaluations to assist in the management of current projects and improve the formulation and appraisal of project proposals. The Development Department has now designated a liaison point with the Evaluation Service to ensure more feedback on a regular basis. The Organization also pointed out that the procedures for ensuring feedback of evaluation missions to all interested parties are set out in the Director-General's Bulletin on Evaluation (DG 84/28). A summary of the outcome of evaluation missions is also included in the high level biennial review of Field Programmes, coupled with reports on evaluation findings being made to Technical Committees of the Council. However, there is still, in my view, scope to enhance procedures to ensure that comprehensive feedback from all evaluation missions is regularly provided to all appropriate staff in Technical Divisions and Operating Units and that action taken as a result is more closely monitored.

33. In 1988 I reported on the difficulties experienced by national project managers, which frequently delayed project implementation, and recommended steps should be taken to improve training. The identification of training needs of national staff can be considered during project formulation. In addition, the FAO, in cooperation with UNDP, now hold special seminars to meet the needs of National Project Directors. These seminars enable participants to become acquainted with FAO's structure, activities and administrative procedures, and hence equip



them to formulate, evaluate and implement projects in collaboration with FAO and UNDP staff. Since the seminars commenced 194 National Project Directors have received training. Some 41 FAO and UNDP staff also took part in the seminars which the Organization informed me resulted in positive feedback and a useful exchange of experiences. Since 1989 training materials have been made available in several languages.

34. In conclusion the above paragraphs show how the FAO have successfully applied the revised UNDP Guidelines on project formulation and the improvements in progress reporting. In addition the FAO, in co-operation with UNDP, have taken steps to improve the training of National Project Directors. Some computer development work for improving the Headquarters monitoring of Field Programmes and Projects has been suspended, but the Organization informed me it is now due to continue as an extra-budgetary source of funding has now been identified.

35. In view of the importance of project evaluation I attach considerable weight to the need for a strong and independent Evaluation Service, and recommend that some appropriate training for non-Evaluation Service Staff should be maintained. I also consider that it is important for the FAO to enhance procedures to ensure that the results of evaluation missions are widely disseminated throughout the Organization.

#### INVENTORY CONTROL SYSTEM

36. An inventory of non-expendable UNDP equipment is maintained at the FAO Headquarters. At 31 December 1989, the inventory was valued at \$105.2 million. Items are recorded at cost price and included in expenditure for the biennium in which they were purchased. The value of equipment is not included in the Financial Statements although it is referred to by the Director-General in his Report on the Accounts. On termination of a UNDP project, title to the equipment purchased by the FAO is usually transferred to the Government concerned to provide continued support for the project or programme.

37. In his Report on the 1984-85 UNDP Financial Statements, my predecessor drew attention to the need for revisions and improvements to the FAO's inventory control systems and procedures. In 1988 I reported on the measures the FAO were taking to improve these systems and procedures. In particular I drew attention to the continuing need for improvements in the receipt of year end inventory Reports, the delays in the implementation of a new computerised inventory system and in the revision of sections of the FAO Manual dealing with inventory control procedures. My staff have reviewed the progress made by FAO in these areas during the 1988-89 biennium.

38. For UNDP Projects, 15 per cent of year end inventory Reports for 1988 were outstanding at 30 June 1990 which is



an improvement over the 60 per cent that were outstanding at a comparable date in 1985 when my predecessor first reported on this matter. In March 1990 computer programmes to improve on follow-up and control of outstanding inventory reports became available. The FAO have pointed out that the benefits accruing from these programmes will apply to all FAO activities and should facilitate more effective control of year end inventory reports.

39. The FAO's improved computerised inventory system, which is to include UNDP projects, had not been fully developed by the third quarter of 1989, due in part to difficulties in recruiting a key staff member and also to the delay caused by a late decision to use a United Nations Common Coding system now being introduced. The Organization told my staff that the fully developed system will become available to the Organization as of 1 July 1991. The revised Manual Section is ready for publication and will be distributed when the system has been tested and released to users.

#### ACKNOWLEDGEMENT

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

JOHN BOURN

(Comptroller and Auditor General  
United Kingdom)  
External Auditor

13 September 1990

OPINION OF THE EXTERNAL AUDITOR

To: The Conference of the Food and Agriculture  
Organization

I have examined the following Status of Funds Statement I and Schedules 1 and 2 of the Food and Agriculture Organization as Executing Agency of the United Nations Development Programme for the financial period ended 31 December 1989 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 1989 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.

JOHN BOURN  
Comptroller and Auditor General  
United Kingdom  
External Auditor

22 May 1990



FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Summary of Significant Accounting Policies

1. Accounting period

The financial period of the Programme is the calendar year. However audited accounts are prepared on a biennial basis to coincide with the FAO Regular Programme biennium.

2. Basis of accounting

The financial statements of the Programme have been prepared under the historic cost convention.

3. Exchange rate translation policy

Assets and liabilities in currencies other than United States dollars are translated at the U.N. operational rates of exchange which approximate to market rates.

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

Exchange differences arise:

- i) When purchasing non-dollar currencies as a result of differences between market rate and the UN exchange rate.
- ii) When revaluing non-dollar currency holdings upon changes in the UN rate.

These differences are credited or charged to the project to which they relate unless this cannot be determined, in which case they are credited or charged to Miscellaneous Income.

4. Cash/accruals basis of accounting

The concepts used in the preparation of these financial statements combine both the accruals and cash bases of accounting, as prescribed by the Regulations of the UNDP.

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

- a) Contributions are recorded on a cash basis. These are shown as "Cash drawings from UNDP" if received by the Programme from the UNDP and as "IOV's and other charges" if paid directly by the UNDP or other U.N. Agencies at the Organization's request on its behalf.

b) Miscellaneous Income is recognized on a cash basis except for bank interest and any investment income which are recorded on an accrual basis.

c) Expenditure includes:

- i) disbursements with regard to budgets of current projects
- ii) outstanding obligations defined as prospective liabilities as follows:
  - for experts: on the basis of services rendered to the end of the year;
  - for travel: on the basis of travel which commenced before the end of the year;
  - for equipment: on the basis of purchase orders or signed contractual agreements issued before the end of the year;
  - for training: on the basis of the costs incurred for fellowships to the end of the year;
  - for sub-contracts: on the basis of the payment schedule included in the contract with the sub-contractor;
  - for miscellaneous: on the basis of orders placed before the end of the year;
- iii) any excess or shortfall in the settlement of amounts reported in the previous biennium as outstanding obligations.

d) The cost of equipment for projects is charged to expenditure when purchased.

5. Staff costs

Staff costs directly relating to a project are charged to that project. Monthly salaries, social security and pension contributions are charged at cost. Other staff costs (allowances, etc.) are charged at the actual average cost per person.

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



STATEMENT I

UNITED NATIONS DEVELOPMENT PROGRAMME


FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS


Status of Funds as at 31 December 1989  
(in US dollars)

Operating Fund	\$	\$
Balance at 1 January 1988		(17,344,576)
Add: Cash drawings from UNDP	165,298,886	
IOV's	192,921,519	
Other charges/credit (net)	(5,092,201)	
Miscellaneous income and exchange adjustments (net)	(704,013)	
Miscellaneous items refunded to UNDP (net)	55,283	352,479,474
		-----
		335,134,898
Less: Expenditure during 1988-1989		
For projects		
Disbursements (Sch. 1)	294,462,137	
Unliquidated obligations (Sch.1)	27,914,075	
For programme support costs (Sch. 1)	41,589,324	363,965,536
		-----
Balance at 31 December 1989		(28,830,638)
Represented by:		=====
Cash at banks, on hand and in-transit (see footnote 1)		8,075,041
Accounts receivable		7,275,335
		-----
		15,350,376
Less: Accounts payable	16,266,939	
1988-89 Unliquidated obligations (Sch. 1)	27,914,075	44,181,014
		-----
		(28,830,638)
		=====

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

APPROVED:

  
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Frederic A. Heim  
Director, Financial Services Division

  
-----  
Edouard Saouma  
Director-General

STATEMENT I  
UNITED NATIONS DEVELOPMENT PROGRAMME  
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS  
Status of Funds as at 31 December 1989  
(in US dollars)  
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Footnote  
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1. The cash in bank balance includes US \$1,171,000 of cash earmarked for fellows' stipends covered by standing letters of credit to various banks and are due for payment in 1990.



UNITED NATIONS DEVELOPMENT PROGRAMME

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Expenditure by Source of Funds  
for the biennium ended 31 December 1989  
(in US dollars)

Programme Expenditure			
Source of fund <sup>a/</sup>	Disbursements 1988-1989	Unliquidated obligations as at 31 December 1989	Total expenditure 1988-1989
Country IPF	257,860,953	24,389,679	282,030,632
Regional IPF	27,216,341	2,583,428	29,799,769
Interregional IPF	2,041,584	141,071	2,182,655
Global IPF	11,017	(525)	10,492
Sub-total (Sch.2)	286,929,895	27,093,653	314,023,548
Special Programme Resources	2,444,355	733,045	3,177,400
Special Measures Fund for LDC	1,993,321	85,556	2,078,877
Special Industrial Services	-	-	-
IPF Add-on Funds	-	-	-
Sub-total (Sch. 2)	291,367,571	27,912,254	319,279,825
Government Cash Counterpart Contribution	3,094,566	1,821	3,096,387
T o t a l	294,462,137	27,914,075	322,376,212
Programme support costs			41,589,324
GRAND TOTAL			363,965,536

a/ Including cost-sharing, where applicable.

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
Afghanistan	3 279 918	152 197					3 279 918	152 197
Albania	356 712	53 909					356 712	53 909
Algeria	1 536 336	96 824					1 536 336	96 824
Angola	3 251 000	198 793					3 251 000	198 793
Argentina	1 039 959	272 419					1 039 959	272 419
Bahrain	79 509						79 509	
Bangladesh	6 668 933	352 920					6 668 933	352 920
Barbados	1 006	-					1 006	-
Belize	45 208	9 017					45 208	9 017
Benin	4 844 946	380 937					4 844 946	380 937
Bhutan	2 154 574	248 413			289 850	10 094	2 444 424	258 507
Bolivia	1 837 625	46 365			185 882	2 848	1 837 625	46 365
Botswana	1 798 943	22 752					1 984 825	25 600
Brazil	2 133 494	25 497					2 133 494	25 497
Bulgaria	91 715	3 579					91 715	3 579
Burkina Faso	7 010 292	359 940	102 590	6 456	251 042		7 363 924	366 396
Burma	4 466 292	412 223					4 466 292	412 223
Burundi	2 735 159	229 671					2 735 159	229 671
Cameroon	3 965 905	76 394					3 965 905	76 394
Cape Verde Islands	1 091 146	8 869					1 091 146	8 869
Central African Rep.	2 716 185	115 379					2 716 185	115 379
Chad	4 329 585	123 348	217 857	31 000			4 547 443	154 348



## FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

## UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country/Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
Chile	169 009	-					169 009	-
China								
People's Rep.	3 018 076	933 766					3 018 076	933 766
Colombia	41 844						41 844	
Comoros Islands	606 077	8 340					725 409	4 140
Congo	1 286 033	27 871	119 332	4 200-			1 286 033	27 871
Cook Islands	85 217	8 900					85 217	8 900
Costa Rica	58 498	2 713					58 498	2 713
Côte d'Ivoire	1 556 568	284 242					1 556 568	284 242
Cuba	846 975	297 586					846 975	297 586
Cyprus	359 715						359 715	
Czechoslovakia	39-						39-	
Dem. Peopl.								
Rep. Korea	1 943 433	963 705					1 943 433	963 705
Djibouti	254 743	-					254 743	-
Dominica	37 395	6 882					37 395	6 882
Dominican Republic	558 311	16 988					558 311	16 988
Ecuador	343 067	5 744					343 067	5 744
Egypt	2 059 023	382 152					2 059 023	382 152
El Salvador	1 411 769	17 195					1 411 769	17 195
Equatorial Guinea	466 566	26 991					466 566	26 991
Ethiopia	10 138 612	967 168	11 225	7 775			10 149 837	974 943
Fiji	579 910	9 445					579 910	9 445

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
Gabon	708 825	--						
Gambia	585 275	105 919			708 825			--
Ghana	2 680 902	418 563			585 275			105 919
Greece	4 632				2 680 902			418 563
Grenada	340 383				4 632			
Guatemala	4 575				340 383			
Guinea	6 420 133	635 044			4 575			
Guinea-Bissau	1 659 524	325 381		4 262--	6 415 871			635 044
Guyana	1 570 323	213 478		308 465	1 967 989	27 798		353 179
Haiti	2 750 873	67 780	23 532	6 329	1 570 323			213 478
Honduras	716 100	32 446			2 780 734			67 780
Hungary	60				716 100			32 446
India	8 344 397	1 605 595			60			
Indonesia	6 234 473	332 729			8 344 297			1 605 595
Iran	1 170 978	226 434			6 234 473			332 729
Iraq	1 263 059	201 523			1 170 978			226 434
Jordan	462 099	45 987			1 263 059			201 523
Kenya	2 473 944	1 619			462 099			45 987
Korea, Rep. of	417 434	61 589			2 473 944			1 619
Kuwait	805 087	4 292			417 434			61 589
Lao,					805 087			4 292
People's Dem. Lebanon	2 779 435	151 369		131 470	2 910 905	2 045		153 414
	611 962	30 792			611 962			30 792



FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
Lesotho	541 262	8 763					541 262	8 763
Liberia	1 598 089	108 482					1 598 089	108 482
Libya	718 405	171 581					718 405	171 581
Madagascar	5 257 379	454 847					5 257 379	454 847
Malawi	4 605 186	684 002					4 736 515	692 340
Malaysia	1 087 564	156 951			131 329	8 338	1 087 564	156 951
Maldives	150 647	16 967					150 647	16 967
Mali	3 928 818	100 168					3 928 818	100 168
Mauritania	4 111 252	60 938					4 564 546	91 749
Mauritius	452 776	16 515			453 294	30 811	452 776	16 515
Mexico	1 404 744	141 710					1 404 744	141 710
Mongolia	27 521	18 752					152 565	90 800
Monserrat	12 808	-					12 808	
Morocco	1 302 670	100 017					1 302 670	100 017
Mozambique	9 051 917	607 173					9 051 917	607 173
Namibia	55 455						55 455	
Nepal	3 908 274	471 297					3 908 274	471 297
Nicaragua	1 070 066	115 025					1 092 801	364 503
Niger	3 677 907	121 650					3 677 907	121 650
Nigeria	1 810 176	142 720					1 810 176	142 720
Niue Island	2 061						2 061	
Oman	1 340 888	48 027					1 340 888	48 027
			22 735	249 478				
			125 044	72 048				

## FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

## UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	\$	\$	\$	\$	\$	\$	\$	\$
PAC-AZANIA	495 239	6 868					495 239	6 868
Pakistan	6 787 469	804 794					6 787 469	804 794
Palestinian People			1 800				1 800	
Panama	130 136	3 626					130 136	3 626
Papua								
New Guinea	1 756 224	132 146					1 756 224	132 146
Paraguay	223 838	3 168					223 838	3 168
Peru	85 774						85 774	
Philippines	3 208 466	149 184					3 208 466	149 184
Poland	893 143	267 046					893 143	267 046
Romania	89 281	41 854					89 281	41 854
Rwanda	4 778 837	98 902			140		4 778 977	98 902
Samoa	585 325	16 652					585 325	16 652
Sao Tome & Principe	456 651	31 080					456 651	31 080
Saudi Arabia	594 425	2 966					594 425	2 966
Senegal	2 406 749	40 713					2 406 749	40 713
Seychelles	176 364	-					176 364	-
Sierra Leone	4 045 297	236 280					4 045 297	236 280
Solomon Islands	22 918		57 468				80 386	
Somalia	5 339 698	424 641	66 755	20 120			5 406 453	444 741
Sri Lanka	2 144 880	101 225					2 144 880	101 225
St. Christopher Nevis	8 223-						8 223-	
St. Lucia	65						65	



FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
St. Vincent	198 767						198 767	
Sudan	655 401	11 277					655 401	11 277
Suriname	143 164	3 422					143 164	3 422
Swapo-Namibia	141 345						141 345	
Swaziland	586 686	6 324					586 686	6 324
Syria	1 788 937	54 390					1 788 937	54 390
Tanzania	10 417 439	1 263 520			46 471		10 463 910	1 263 520
Thailand	1 937 078	443 872					1 937 078	443 872
Togo	2 077 599	281 666			55 760	47	2 133 359	281 713
Tonga	76 355		966				77 321	
Trinidad and Tobago	468 332	2 754					468 332	2 754
Trust Terr. of Pacif.	18 602						18 602	
Tunisia	638 557	156 376					638 557	156 376
Turkey	1 525 574	114 680					1 525 574	114 680
Turks and Caicos Is.	168						168	
Uganda	7 864 607	520 168					7 864 607	520 168
United Arab Emirates	51 600						51 600	
Uruguay	296 459	11 100					296 459	11 100
Vanuatu	140 329	5 851					140 329	5 851
Venezuela	63 209						63 209	
Viet Nam	12 001 108	2 683 362					12 001 108	2 683 362
Yemen Arab Republic	3 513 409	458 564					3 513 409	458 564

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Country Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	
	\$	\$	\$	\$	\$	\$	\$
Yemen PDR	1 269 505	272 263	22 582		1 299 081	272 263	
Yugoslavia	421 339	31 278		6 994	421 339	31 278	
Zaire	3 979 402	361 434			3 979 402	361 434	
Zambia	2 120 527	41 529			2 120 527	41 529	
Zimbabwe	1 678 609	131 926			1 678 609	131 920	
For adjustment	(1 192)	2 481			(1 192)	2 481	
<b>Total</b>							
Countries \$	257 660 953	24 369 679	641 329	379 102	1 993 321	85 556	24 834 337



FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

Expenditure by Country and by Source of Fund for the biennium 1988-89  
(Expressed in US dollars)

Regional Projects	IPF (including cost-sharing and Add-on funds)		Special Programme Resources		Special Measures Fund for Least Developed Countries		Total	
	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations	Disbursements	Unliquidated Obligations
	\$	\$	\$	\$	\$	\$	\$	\$
Africa	7 891 350	778 126					7 891 350	778 126
Arab States	5 165 974	906 347					5 165 974	906 347
Asia and Pacific	13 724 887	867 404					13 724 887	867 404
Europe	275 197	18 296					275 197	18 296
Latin America	158 933	13 255					158 933	13 255
<b>Total</b>	<b>27 216 341</b>	<b>2 583 428</b>					<b>27 216 341</b>	<b>2 583 428</b>
Regional \$	2 041 584	141 071	1 803 026	353 943			3 844 610	495 014
Inter.								
Global Projects \$	11 017	525-					11 017	525-
<b>Grand Total</b>	<b>\$ 286 929 895</b>	<b>27 093 653</b>	<b>2 444 355</b>	<b>733 045</b>	<b>1 993 321</b>	<b>85 556</b>	<b>291 367 571</b>	<b>27 912 254</b>