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FINANCIAL REPORT AND STATEMENTS: VOLUME I

REGULAR PROGRAMME 1990-91

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THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS ON
THE FINANCIAL STATEMENTS OF THE REGULAR PROGRAMME, TRUST FUNDS AND
OTHER FUNDS FOR THE FINANCIAL PERIOD 1990-91 ENDED 31 DECEMBER 1991

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INTRODUCTION

General

1. I have audited the Financial Statements of the Regular Programme of the Food and Agriculture Organization of the United Nations (FAO) for the period 1 January 1990 to 31 December 1991, in accordance with the Financial Regulations and the "Additional Terms of Reference Governing External Audit". My audit of the Financial Statements has been conducted in conformity with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency.

Presentation of Financial Statements

2. The Financial Statements prepared by the FAO were formally presented for audit on 15 May 1992. Because of difficulties in implementing a new computerised accounting system the FAO was unable to present final accounts for audit by 31 March following the end of the period to which they relate, as required by the Financial Regulations.

3. The Financial Statements of the Regular Programme have been presented in a new format for the 1990-91 biennium. The Financial Statements now conclude with explanatory notes, which have replaced the Director-General's Report. These changes follow more conventional practice, and are designed to assist member nations in interpreting the Financial Statements.

4. Although the majority of the Organization's activities are reflected in the Regular Programme Financial Statements and Schedules, my financial audit also included examinations of a number of separate Accounts for the 1990-91 biennium. The Financial Statements presented to me for audit, together with the budgeted and actual expenditures, are listed in the table below.

Table 1: The Financial Statements of the FAO 1990-91

FINANCIAL STATEMENTS	BUDGETED EXPENDITURE \$ million	ACTUAL EXPENDITURE \$ million
FAO Regular Programme 1990-91 (1)	568.8	568.8
FAO Statement of Trust Funds 1990-91 (includes United Nations Population Fund Account 1990-91)	513.8	423.6
FAO/United Nations Development Programme 1990-91	440.7	400.3
FAO/World Bank Cooperative Programme 1990-91	24.5	24.7
FAO Credit Union 1990 and 1991 (2)	2.4	2.5
FAO Staff Commissary Fund 1990 (3)	N/A	12.9
TOTAL	1550.2	1432.8
Notes: (1) Excludes investments of \$86.3 million, together with income of \$235.8 million and expenditure of \$162.7 million on other funds, such as the Support Cost Account and other Reserves. (2) Excludes investments of \$37.6 million and loans to members of \$48 million at 31.12.91. (3) Staff Commissary Fund 1991 accounts not yet presented for external audit.		

Except for the Staff Commissary Fund I have presented a separate audit opinion on each of these accounts, and have issued another Report, in accordance with my usual practice, on the Statement of the Status of Funds advanced to the FAO by the United Nations Development Programme (UNDP).

Audit Approach

5. The main purpose of the audit was to enable me to form an opinion as to whether expenditure recorded in 1990-91 had been incurred for the purposes approved by the governing bodies of the FAO; whether income and expenditure were properly classified and recorded in accordance with the Financial Regulations; and whether the Financial Statements presented fairly the financial position at 31 December 1991.

6. My audit examination included a general review of the financial accounting systems, controls and procedures and such tests of the accounting records and other supporting evidence as I considered necessary to enable me to form an opinion on the Financial Statements. Consequently, my work did not involve a detailed review of all aspects of the budgetary and financial information systems. The audit examination included:

- a broad assessment of internal controls over income and expenditure; bank and imprest accounts; accounts receivable and payable; and supplies and equipment;
- substantive testing of a sample of transactions for 1990 and 1991 covering all major areas of activity;
- an examination of unliquidated obligations, which is the term used to describe those items defined as valid liabilities at the end of the accounting period but for which no payments have been made and which are carried forward to 1992-93; and
- a final review to ensure that the Financial Statements accurately reflected the Organization's accounting records.

7. As the Organization operates central controls over the major spend areas, my financial audit is concentrated at the FAO Headquarters. However my staff made short visits to 11 of the FAO Field Offices (Appendix A). The audit findings from these field visits have been notified to the Secretariat.

8. My audit of the Financial Statements had regard to the work of the Office of Internal Audit, Inspection and Management Control in the field and at the FAO Headquarters. In 1990-91 I was able to take considerable assurance from their work for the Administrative and Finance Department in remedying some of the errors and imbalances in the accounting records arising from difficulties experienced on the implementation of a new computer accounting system. I note that six Internal Audit staff are still engaged on resolving the underlying problems with the new accounting system but are to be returned to their normal duties as soon as practicable. A strong and independent Internal Audit function with a full complement of staff is, in my view, essential for an Organization as large and diverse as the FAO.

Overall Results

9. In order to satisfy myself that the wide ranging problems experienced with the implementation of the new computerised financial accounting and personnel system, FINSYS/PERSYS, had not had a material impact on the 1990-91 Financial Statements, substantial additional work was performed by my staff. To this end my staff checked a significantly increased number of transactions compared to the 1988-89 biennium, and conducted additional reviews of areas identified as presenting a higher risk of error.

10. My examination indicated that the Financial Statements were presented fairly, primarily as a result of the meticulous checks of accounting entries and the remedial action taken by the Organization to correct problems with the computerised accounting system. Accordingly, I have placed unqualified audit opinions on all the Organization's Financial Statements for 1990-91, as explained in more detail in paragraphs 116 to 119.

Content of the Report

11. It is my policy to follow up the response made to my previous Reports over an appropriate cycle. My observations on the action taken by the FAO in response to my 1986-87 Report on the control of manpower, and my 1988-89 Report on financial matters are set out in paragraphs 15 to 33.

12. I have also continued with a programme of examinations provided for by the Financial Regulations. This programme is intended to review aspects of the Organization's activities and the use of resources over an appropriate cycle. The reviews have been primarily concerned with matters of economy, efficiency and effectiveness. In 1990-91 my staff examined the development and implementation of the new computerised financial and personnel system. A summary of the main findings and recommendations arising from this review are reported at paragraphs 34 to 38. The detailed findings of the review are reported at paragraphs 43 to 136.

13. A summary of the main findings and recommendations arising from my financial audit and other matters are reported at paragraphs 39 to 42. The detailed findings of the examination are reported at paragraphs 137 to 189.

14. My observations on all the matters contained in this Report were communicated to the Organization. The Organization has confirmed the facts on which my observations and conclusions are based and have provided explanations and answers to my queries. In accordance with normal practice my staff communicated some other matters, not included in this Report, to the Secretariat. None of these matters affected my audit opinion on the Regular Programme Financial Statements and Schedules, or other Accounts, for the biennium.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORTS

General

15. In accordance with my usual practice I have reviewed the action taken by the FAO in response to my previous Reports. In 1991 the FAO Conference when discussing the audited accounts, asked the Secretariat to respond to my recommendations. I have deferred my own review of progress on the main aspect of my 1988-89 Report, the Procurement of Field Equipment and Services, pending the Secretariat's response. However, my staff have reviewed, at paragraphs 16 to 28, the Organization's response to my 1986-87 Report on the Control of Manpower. A number of financial matters I commented on in my 1988-89 Report are reviewed in paragraphs 29 to 33.

Control of Manpower

16. Manpower expenditure continues to be the largest element of the budget of the FAO. The Programme of Work and Budget 1990-91 provided for expenditure of \$311 million on Salaries and Common Staff Costs and \$110 million on Other Human Resources. This accounts for 74 per cent of the total budget of \$569 million.

17. The Organization is pursuing a policy of raising the Professional level throughout the Organization by identifying savings in General Service posts to offset the costs of additional Professional posts. For 1992-93, the proposed net reduction of five posts, consists of a net increase of 18 Professional posts and a net saving of 23 General Service posts. This saving in General Service posts was identified following a thorough review of all vacant posts. In my 1986-87 Report I recommended that such reviews of vacant posts should take place.

18. I also recommended:

- (a) that the Organization should consider conducting a trial period of independently planned reviews of selected areas of activity, to demonstrate the benefits and savings which might accrue from full implementation of a systematic staff review procedure;
- (b) that the Organization should continue with the initiative to develop a Classification Standard for General Service staff which would assist in the grading of posts, and increase the proportion of Professional posts to which the Master Standard of the International Civil Service Commission (ICSC) is applied;
- (c) that all post descriptions should be kept up to date; and
- (d) that when the duration of a 'parallel post', in which a lower graded staff member carries out the duties of a higher graded vacant post, is likely to exceed two years it would be appropriate to review and justify the grading of the vacant post it replaced.

19. In my 1986-87 Report I also noted that the savings achieved by the Organization through the maintenance of vacant posts exceeded those savings provided for by the lapse factor, the budgetary device which allows for savings anticipated from staff turnover, vacancies and delays in recruitment. Posts were being kept vacant as a conscious management decision to cope with the financial problems faced by the Organization, as a result of the unprecedented shortfall in contribution income from member nations. At the FAO Conference in 1989 the lapse factor was reduced to three per cent from the five and a half per cent used at the time of my 1986-87 Report. I have not reviewed the implementation of this latter device in the light of the extensive consideration given to the subject in recent years by governing bodies.

On Implementation of Staff Reviews

20. In October 1988, as part of the review of administrative questions conducted alongside the "Major Review of Certain Aspects of FAO's Goals and Operations", the Organization commissioned a "Conceptual Review of Personnel Policies and Practices" from a consulting firm. I welcome the Organization's initiative in commissioning this report. In particular, I find the emphasis the consultants put on the need to develop staffing standards, by establishing standard workload units per full-time equivalent position, to be of potential value to the Organization.

21. The Organization has made some progress in instituting more staffing reviews. By 31 December 1991 the Establishments group within Personnel Division had carried out three staffing reviews of operations clerks in the Agricultural Operations Division, and secretarial staff in the Investment Centre and in the Field Programme Division. These studies covered some 110 staff members or some six per cent of the General Service staff at the Organization's Headquarters. In 1992 the Organization agreed to proposals for a further seven reviews, three of which are close to completion. The Organization informs me a major review of all Administrative Units is also planned.

22. Although objective staffing standards have not been developed the Organization considers these staffing reviews have been able to establish whether these areas were overstaffed or understaffed. Where appropriate the reviews made use of comparative indicators, such as secretary to staff ratios, and these indicated significant differences in staff activity levels within the areas involved. This suggests to me that an improved methodology and a more systematic approach to staffing reviews could offer scope for further savings by the Organization.

23. In considering the scope and role of future reviews, the Organization should consider the impact of changes in personnel, organisation and working methods. For example, through the redeployment of staff, together with closer management supervision, in the latter months of the biennium the FAO was able to deal with the significant backlogs of work that arose from the introduction of the new computerised accounting system, FINSYS/PERSYS (see paragraphs 102 to 115).

On Development of Post Classification

24. The Organization has continued their efforts to develop more objective tools for classifying and achieving greater consistency in the evaluation of posts. A Classification Standard for General Service staff has been in use for a three year trial period. A consultant has been employed by the Organization to advise on revisions to the draft Standard, based on the experience of the trial period, and implementation of the final Standard is expected later this year. With regard to Professional posts, the Organization uses the International Civil Service Commission's Master Classification Standard when such posts are reviewed. The Organization informs me it has also participated in the development of a number of other International Civil Service Commission Standards for specific occupational groups. I note the progress made by the Organization in this area.

On Updating of Post Descriptions

25. It remains the case that post descriptions are reviewed whenever personnel action is required. Most often this occurs when Divisions wish to fill a vacant post. Post descriptions are also reviewed as part of the Programme of Work and Budget exercise and for each case submitted to the Establishments Committee, a managerial forum within the Organization which examines proposals for staffing changes. The Organization estimate that an average 20 per cent of all post descriptions are reviewed in this way during the course of a biennium. Nevertheless my staff consider that a large number of post descriptions are now out of date, in particular because of the impact that changing technologies, such as the introduction of FINSYS/PERSYS, and the expansion of word-processing and personal computing facilities, have had upon job content. I note that similar conclusions were reached in the staffing reviews carried out by the Establishments group. The Organization informed me that the impact of the introduction of new technologies is being addressed as part of the development of the General Service Classification Standard.

On Reviews of Parallel Posts

26. In its response to my 1986-87 Report, the Organization stated that it was content with the existing use of parallel posts, which provided a potential career structure, in particular for newly-recruited Professional staff. However, I remain of the view that the Organization would benefit from a periodic review of the justification of the grading of such posts when lower graded staff carry out the duties satisfactorily for more than two years. The Organization agrees in principle with the proposal that parallel posts be reviewed but considers that this should be over a longer time frame. I also consider that it would enhance the validity of budgetary decisions if any significant saving from filling these posts below the budgeted grade were disclosed in the Programme of Work and Budget. The Organization informs me it may be desirable to also disclose additional costs arising from the payment of Special Post Allowance on other posts temporarily filled by a lower graded member of staff, substituting for a higher graded staff member.

On Manpower Planning

27. I recognise that full implementation of the Programme of Work and Budget has been affected in the last two biennium, by the financial crisis which the Organization continues to face. In such circumstances, my staff consider, there is a strong case for greater budgetary incentives to encourage a more searching re-examination of staffing needs by the Divisions within the Organization. Enhanced budgetary mechanisms linked to procedures for assessing staffing levels would, in my view, help the Organization to meet the growing challenges it faces. These include not just the current financial crisis, but the continuing impact of the introduction of FINSYS/PERSYS, and the likely impact of the new UNDP Support Cost Successor Arrangements as well as moves towards more national execution of development projects.

Conclusion

28. I welcome the progress the Organization is making in taking forward the observations and recommendations of my 1986-87 Report on Manpower Control, through the review of vacant posts, the performance of an increasing number of staffing reviews, and the development of a Classification Standard for General Service staff. However, in my view, further progress will be essential if the Organization is to tackle the problems and challenges with which it is faced.

Financial Matters

Personnel-Related Liabilities

29. In my Report on the FAO Regular Programme Financial Statements 1988-89 I welcomed the steps taken by the Organization to disclose all personnel-related liabilities. Note 12 accompanying the Financial Statements 1990-91 discloses information on the accumulated liabilities. My staff, on the basis of the evidence available, conclude that the accumulated contingent liabilities at 31 December 1991, probably exceed \$350 million, of which some \$100 million is funded. I recognise that many of these liabilities are unlikely to mature for a number of years or at any one time unless the Organization has to meet its legal liabilities in the event of significant reductions in staff numbers.

30. I also note the Organization proposes to revalue the funded contingent liabilities every four years. The Compensation Plan Reserve Fund and the Separation Payment Scheme Fund have been subject to actuarial reviews within the three years up to 31 December 1991. Details of when the valuations were made are disclosed in Note 12 to the Financial Statements.

31. Estimates of the liabilities associated with Repatriation Grants (which are fully funded for Trust Fund staff and not funded for other staff), Accrued Leave and Major Separation Costs have been produced by the FAO. The \$100 million liability in respect of After Service Medical Coverage has not however been subject to any review since 1985. I am pleased to note that a proposal to undertake an actuarial valuation of this major item is currently under consideration by the Organization.

32. The disclosure of personnel-related liabilities could also be further improved by distinguishing the liabilities and related funding provisions for the World Food Programme (WFP) from those relating to the FAO. The contingent liability in respect of Separation Payments for the staff of the WFP was estimated at \$6.7 million (in January 1990) and is included in Note 12 to the Financial Statements. The other liabilities embracing the WFP are After Service Medical Coverage and the Compensation Plan Reserve Fund.

Inventory Systems

33. I welcome the improvements that continue to be made in the inventory control systems and procedures, on which I commented in my 1988-89 Report. The FAO has now introduced a new computerised inventory system, although the revised Procedures Manual has yet to be issued. My observations on inventory for the 1990-91 biennium are at paragraphs 184 to 186.

SUMMARY OF MAIN FINDINGS AND RECOMMENDATIONS ON THE AUDIT
FOR THE 1990-91 BIENNIUM

MANAGEMENT MATTERS

The Development and Implementation of a New Computerised Financial and Personnel System

34. In 1990 the FAO implemented the final phases of an ambitious and complex computer project designed radically to improve and integrate its financial and personnel systems. The project, known as FINSYS/PERSYS, was designed and developed over a seven year period at a cost exceeding \$30 million. The new database system supports about 1000 users who have on-line access to input transactions via some 500 computer terminals located throughout the FAO Headquarters. The system incorporates substantial amounts of real-time processing to ensure that database records are updated immediately transactions are accepted in FINSYS/PERSYS.

35. The project comprised three phases. Phase I (involving mainly payroll and personnel systems) was introduced in April 1989, two years later than originally planned. My staff concluded that, in general, it was successfully implemented. However, due to a number of weaknesses in the management of the project and technical difficulties, implementation of the final phases (involving treasury, financial accounting and travel systems) resulted in serious and widespread problems. The problems were sufficiently wide ranging that my concerns were reported to the Director-General in an interim management letter in August 1991.

36. In response to the concerns set out in the interim management letter, the Organization classed the situation as an emergency. Immediate, concerted and comprehensive action was taken to ensure that the integrity of the accounting records was restored and that backlogs in processing of field imprest accounts, bank reconciliation work and suspense account balances were eliminated. This action involved considerable staff resources, including the temporary redeployment of some staff to the Administration and Finance Department. In addition the team of skilled computer staff, assigned to maintain the new system FINSYS/PERSYS, was increased and a new powerful mainframe computer was installed to improve system performance and capacity. A firm of consultants was employed to co-ordinate the implementation of a comprehensive action plan and to provide specialist assistance in the key area of data security.

37. My examination of the Financial Statements confirmed that the Organization successfully addressed the critical problems affecting the 1990-91 accounting records. However, the difficulties with FINSYS/PERSYS are not entirely resolved. Indeed the Organization needs to ensure that lasting solutions are found rather than resorting to further short-term and resource intensive exercises to produce satisfactory Financial Statements. This should not be necessary with automated accounting systems. If the expertise necessary to ensure that the system works in a fully satisfactory manner cannot be made available, the FAO may be faced with the need

to mount a further - and costly - emergency exercise in order to produce satisfactory Financial Statements for the 1992-93 biennium (paragraph 136). With these thoughts in mind I make in my Report a number of recommendations aimed at avoiding a recurrence of widespread problems in the future and at ensuring that the potential benefits from FINSYS/PERSYS are identified and obtained. In particular I am concerned that the following areas receive specific attention alongside or as part of the functional review of FINSYS/PERSYS that the Organization recently got underway:

- (a) An examination of all outstanding requests for amendments to the system and problems reported, together with a review of known areas of continuing concern. Although precise figures are unavailable, there are many reports still outstanding which were raised prior to the start of the emergency exercise in 1991 (paragraph 135).
- (b) The quality of systems documentation should be examined to assess how comprehensive, current and adequate it is. Where necessary, systems documentation should be improved. I note that work in this area is underway (paragraphs 134 and 135).
- (c) Recommendations contained in various consultants' reports should be reviewed and the progress towards implementing any outstanding items closely monitored. I note that all high priority recommendations have now been implemented and that remaining recommendations are to be actioned as quickly as practicable (paragraph 135).
- (d) Proper standby and recovery procedures should be developed to protect the Organization against partial or complete systems failures (paragraph 99).
- (e) The adequacy of the number of skilled computer staff available for maintaining and enhancing the new system should be reviewed, to ensure that sufficient resources are on hand to cope with likely future demands (paragraph 135).
- (f) The recruitment of systems accountants into the Finance Division is necessary in order to bolster expertise in a vital area (paragraph 135).
- (g) A full cost-benefit analysis of the system should be undertaken to identify, in particular, any projected future costs and benefits. In the light of the results of this review the long-term viability of maintaining a real-time accounting system should be addressed. The analysis should include:
 - a critical appraisal of the administrative procedures and staffing levels required to support the new system. Particular attention should be paid to those areas which were expected to generate most savings (paragraphs 130 and 135); and
 - operational running costs of the system should be critically examined to identify any inefficient programs or processes. This may reveal excessive costs in some areas, even though the Organization might consider total running costs acceptable (paragraph 127 and 135).

38. The Organization also needs to improve its project management procedures for the development and enhancement of major computerisation systems. Particular attention should be paid to the following areas:

- (a) With rapidly changing computer technologies the need for up to date consideration of all the options at the design stage and, in particular, the possibility of tailoring software packages available commercially (paragraph 49).
- (b) More comprehensive and appropriate standards for the development and management of major computerisation projects should be drawn up as a matter of priority (paragraph 51).
- (c) Greater consultation with users is necessary during both the design and development stages to obtain the most added value from future projects (paragraph 54).
- (d) More rigorous standards of testing should be carried out to reduce the risks of a recurrence of the costly implementation problems experienced in the later phases of FINSYS/PERSYS (paragraph 69).
- (e) The provision of separate budgetary information to enable costs to be more accurately monitored, controlled and reported (paragraph 127).

FINANCIAL AND OTHER MATTERS

39. The Organization's lengthy and meticulous check of the accounting records, which together with the subsequent action taken, resolved many of the critical problems that had arisen with the implementation of the new computerised accounting system. The comprehensive remedial action taken successfully addressed those matters of concern raised in the interim management letter.

40. The extensive testing performed by my staff, and additional work in areas assessed as presenting higher risks of errors, was carried out with generally satisfactory results. I also examined the figures shown on the face of the Financial Statements, Schedules and accompanying Notes. These did not reveal any significant or unexplained variations from the figures for the previous biennium; any differences inconsistent with my knowledge of changes in activities; or any significant differences from the approved Programme of Work and Budget, to which a number of Inter-Chapter budgetary transfers were approved by the Finance Committee.

41. As a result I am satisfied that the computer accounting problems have not resulted in errors material to the accuracy, completeness and validity of the final Financial Statements as a whole. I was therefore able to certify that all the programme accounts prepared by the FAO were fairly presented as at 31 December 1991.

42. My observations on a number of significant matters arising from the financial audit, together with other matters, are at paragraphs 137 to 189. The main recommendations are summarised below:

- (a) Due to the continuing shortfall in Member Nations' contributions, borrowing was undertaken in 1990-91 which incurred interest charges of \$1.6 million, the disclosure of which I consider could be enhanced, as appropriate, in future Financial Statements (paragraphs 137 to 151).
- (b) I recommend the Organization considers introducing a form of cash flow statement as part of the Financial Statements. I note that the Working Party on Common Accounting Standards in the United Nations system, in which the FAO is participating, is considering the introduction of a Statement showing the changes in Financial Resources (paragraph 142).
- (c) I note the FAO has some rarely used bank accounts. I therefore recommend the Organization reviews its requirements for the number of bank accounts, and seeks to combine a number of separate accounts presently run by some Field Offices (paragraphs 152 to 155).
- (d) A number of items in Accounts Payable and Receivable require further investigations, follow-up and correction before the end of the 1992-93 biennium. I also recommend the FAO takes steps to enhance controls over Accounts Payable and Receivable (paragraph 156 to 160).
- (e) I attach considerable importance to the maintenance of a regular and reliable system of financial reporting to Trust Fund donors and welcome the steps the Organization is now taking to remedy the deterioration in reporting which occurred, mainly in 1990 (paragraphs 174 to 176).
- (f) I welcome the Organization's assurances that future Commissary Accounts will be presented for external audit on a more timely basis. I recommend that the procedures for deciding appropriate levels for transfers to reserves should allow more discretion to the Organization's senior management, in consultation with the Finance Committee, in the period between sessions of the FAO Conference (paragraphs 178 to 183).
- (g) A review of inventory records revealed that their accuracy is affected by delays in the confirmation from Field Offices of receipts and disposals. I recommend that the status of \$3 million of Trust Funds inventory classified as "transferred to governments" be reviewed (paragraphs 184 to 186).

DETAILED FINDINGS ON MANAGEMENT MATTERS

The Development and Implementation of a New Computerised Financial and Personnel System

Introduction

43. In 1990 the FAO implemented the final phases of a large and complex computer project designed to upgrade and integrate its financial and personnel systems, enhance the timeliness and quality of management information and improve productivity. The project, known as FINSYS/PERSYS, was designed and developed over a seven year period. The Organization calculated the total cost at \$18.9 million, with estimated annual savings of \$1.9 million. Since these costings were drawn up considerable additional costs have been incurred and my staff estimate that the total cost to date of FINSYS/PERSYS exceeds \$30 million. Although benefits are likely to accrue in the future, no significant recurrent savings have yet been identified.

44. In marked contrast to the Organization's previous centralised system, parts of which were almost 20 years old, FINSYS/PERSYS is a sophisticated database system comprising 16 different but integrated sub-systems. The system supports about 1000 users who now have on-line access to input transactions to the database via some 500 computer terminals located throughout the FAO Headquarters. The system allows for substantial amounts of real-time processing to ensure that the database records are updated immediately transactions are accepted in FINSYS/PERSYS.

45. The project was conceived in the early 1980s and the initial feasibility study was undertaken in 1984. Following the production of both general and detail system designs, a tender was issued in May 1985 soliciting private sector bids for the completion of the design, system development and implementation of the project. Bids were received from five contractors and a fixed price contract for \$6.6 million was awarded in December 1985. The contractor was assisted in the project by a firm of accountants. The FAO envisaged that the project would span three years and be carried out in three phases.

- (a) Phase I involved payroll activities including personnel servicing and post classification and control.
- (b) Phase II was mainly concerned with financial accounting processes, including general ledger and treasury operations.
- (c) Phase III concerned ancillary segments of the system such as travel, investment management, recruitment and social security functions.

The FAO initially expected that the first phase of the project would be operational in early 1987 and the remaining phases be completed by the end of 1988.

46. Phase I of the project was successfully introduced in April 1989. The two remaining phases were implemented some nine months later at the start of the 1990-91 biennium. In addition to these delays, the later phases of the project suffered significant problems on implementation, with a consequential build up of critical backlogs of essential accounts work. In September 1991 the Organization informed the FAO Finance Committee that there were "a number of problems and that certain measures had been taken ... including the development of task orientated action plans, temporary assignment of in-house expert staff to the problem areas and the acquisition of a new mainframe computer". This concerted management action corrected the erroneous postings generated by the FINSYS/PERSYS accounting system.

Scope of the Examination

47. I review the effectiveness of the management of the development stage of FINSYS/PERSYS in paragraphs 48 to 70. The implementation of the project and the subsequent corrective action taken by the FAO are reviewed at paragraphs 71 to 119. The extent to which the expected benefits and savings have been obtained from the new computer system are evaluated at paragraphs 120 to 136. In the course of this review my staff examined relevant documentation, including a number of reports produced by external consultants. Formal discussions were held with many staff of the Organization, including key members of the project team and users of the new system. My specialist computer auditors also reviewed the procedural and management controls of the new system. A glossary of technical terms is at Appendix B to this Report.

Approach to the Project

48. Though the nature of computerisation projects varies greatly, there are a number of separate steps which are generally common to all such projects. The approach adopted by the contractor, and endorsed by the FAO, consisted of seven steps and was set out in their technical proposal.

- (a) Project Initiation: problems or requirements are identified and a plan to study the feasibility of various solutions is proposed.
- (b) Feasibility Study: the possible solutions are evaluated to provide management with an early opportunity to assess the viability of the project before substantial funds are spent.
- (c) Analysis: a detailed examination, requiring substantial user participation, is undertaken to define the processes and the information which will form the basis of the system.
- (d) System Design: the specifications of users' requirements worked out in the analysis phase are passed to the system designers who tailor the system accordingly.
- (e) System Development and Testing: working procedures and computer programs are developed in line with the specifications defined at the system design stage. Testing is then performed to ensure that all components of the system work properly.

- (f) Implementation: working procedures and computer programs are made operational. Users receive final preparatory training and data files are converted from the old to the new system.
- (g) Post Implementation Review: after the system has been in operation for a predetermined time, its performance is reviewed and evaluated.

The contract for the development of FINSYS/PERSYS was awarded after the first three phases had been completed.

49. My staff reviewed the initial feasibility work performed by the FAO and noted that there was a strong case supporting the updating of the Organization's old computerised financial system and for integrating this with a personnel system. The FAO considered the existing financial and personnel systems to be too laborious, inefficient, error prone and out-dated to cater for the Organization's needs. An integrated database system was the preferred option. A number of options, such as enhancing existing systems or the modification of off-the-shelf packages had been considered but rejected in the 1970s. Independent consultants confirmed that they were not aware of any package that fully met all the Organization's requirements and endorsed the decision to opt for a bespoke system development. At the time the project was approved the FAO reviewed one off-the-shelf software package but concluded it did not appear to be a good basis to consider as a foundation on which to accommodate the complicated requirements of the FINSYS/PERSYS system. In view of the rapid pace of change in computer technologies, I recommend that if major system developments are undertaken in future, up to date consideration is given to a range of options and, in particular, that the latest software packages available commercially are thoroughly evaluated.

System Development Standards

50. In order to minimise the risks associated with complex computer projects, it is essential that project development and implementation take place within a tightly controlled framework. To achieve this it is common to apply defined methodologies and standards. In response to recommendations made by several of my predecessors, the FAO issued a System Development and Control Guidelines Manual in May 1982, but the Organization considered it was inadequate for the management of a project like FINSYS/PERSYS. In his work on the project the contractor applied his own in-house methodology and this was accepted by the Organization.

51. The division of responsibility between the FAO and the contractor made it important for the project to be governed by consistent standards with which the FAO was fully conversant and which could be enforced across all project activities. Although detailed standards and procedures were intended to be defined during the course of the project my staff found evidence of uncertainty concerning the formal development standards to be applied. This allowed scope for key procedures and controls to be curtailed or relaxed. The Organization informed my staff that testing procedures and standards were only dropped in late 1989 due to a lack of resources. In my view it is essential that the FAO develops and enhances major computer systems in accordance with

defined procedures and I therefore reiterate my predecessor's recommendations that appropriate standards be implemented as a matter of priority.

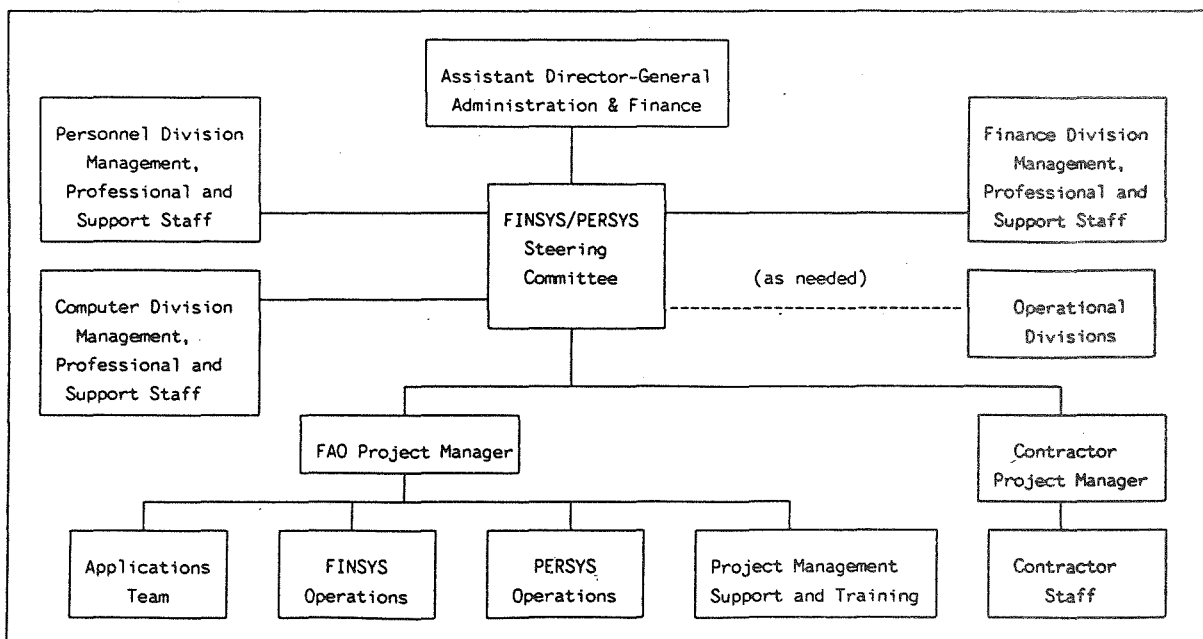
Project Management

52. The FAO took steps designed to enhance project management and control, including the establishment of a Steering Committee; independent assessments by external consultants; a fixed price contract; and the use of a computerised project management tool.

Steering Committee

53. The FINSYS/PERSYS Steering Committee played the major role in project management. The Committee provided management oversight of the entire project, under the overall policy guidance of the former Assistant Director-General/Administration and Finance. The Committee had specific responsibility in key areas such as accepting, on behalf of the FAO, the Design Confirmation Reports produced by the contractor which formed the basis for the new system. The Committee's approval was also required before any payments could be made to the contractor. Members of the Committee were the Directors of Finance, Personnel and Computer Services, or their representatives, supported by seven full time technical staff. Internal Audit were also represented at every meeting of the Committee to observe the progress of the project and to offer advice as appropriate. The Committee was chaired by the Assistant to the Assistant Director-General/ Administration and Finance in his capacity as the FINSYS/PERSYS project manager. Frequent meetings, generally every two weeks, were held throughout the life of the project and achievements, activities and plans were reviewed. The diagram below depicts the organisational arrangements associated with FINSYS/PERSYS project management and the central role prescribed for the Steering Committee.

Diagram 1: FINSYS/PERSYS Project Management



54. Although the users of the system from the operational divisions were involved in the design stage, they were used in the Steering Committee only on an as needed basis and were therefore excluded from participating fully in all aspects of the project. In the light of the organization-wide impact which FINSYS/PERSYS was designed to have on traditional working practices and the key role other users were expected to play in the new system, it would have been preferable to involve them more fully throughout the life of the project. My staff concluded that involving users more actively could have considerably reduced or avoided many of the problems that emerged with the system. It would also have fostered a wider appreciation of the project and of its fundamental importance to the Organization as a whole. I recommend that, in order to obtain the most added value from future computer projects, whether it is developing new systems or enhancing old ones, all main users should be fully consulted throughout.

Independent Assessments

55. The use of an outside consultant to provide objective and expert assessments was particularly important in view of the lack of in-house expertise regarding the development of major computerisation projects. To maximise the benefits from the use of consultants on this project it was necessary, in my view, to ensure that their reviews were conducted at the optimum times and that their recommendations were thoroughly considered and appropriate action taken. My examination suggests that this did not happen and that consequently the value of the assessments made during the development stage were considerably reduced. Although the reports were reviewed and commented upon by the FAO, there were no formal monitoring or follow-up procedures and it is therefore unclear how many of the recommendations made were implemented.

56. The consultants were often constrained in their investigations by a number of factors, including incomplete project planning documents and design confirmation reports, and because the activity under review had not always been fully completed. The consultants generally seem to have had insufficient time to review some important subjects, such as plans for staff training or the organisational changes necessary to maximise the efficiency and effectiveness of the new system.

57. The consultants were originally contracted to perform six assessments but the FAO terminated the contract in December 1989 after only four reports had been completed. Their last assessment was carried out in June 1988, some nine months before the implementation of Phase I of the project (payroll and personnel functions) and 18 months before the implementation of the other Phases. It was not clear to my staff why the contract was terminated at such a critical stage. In my opinion it would have been preferable to use the same independent consultants throughout the life of the project, subject to their work being satisfactory, and thus gain maximum benefit from their accumulated experience and expertise regarding FINSYS/PERSYS.

58. A further independent review, on the advice of Internal Audit, was commissioned from another firm of consultants in February 1990. As Phase II of the new system had already been implemented on 2 January 1990, the results of this independent review could not

fully inform the FAO management's consideration of the risks involved with implementation of the final phases of the system. Under the original contract governing the independent expert assessments the FAO clearly intended that the timing of this particular review would precede implementation. In my view failure to adhere to this timetable greatly reduced the benefits of a potentially valuable report, which should have prompted reconsideration of the implementation timetable.

Fixed-Price Contract

59. Management control of the project was also facilitated by the fixed price contract of \$6.6 million agreed with the contractor. This specified the price for each main component of the system and contained an agreed delivery schedule. Penalty clauses provided the FAO with a means of redress should the contractor fail to meet the terms of the contract. The contract also stipulated that 10 per cent of all amounts invoiced by the contractor would be withheld pending confirmation by the Steering Committee that the contractor had "... performed in good faith and that the systems were functioning well".

60. My staff found that the contract cost was closely monitored by the FAO. The 10 per cent retention of amounts invoiced by the contractor was consistently applied and the only significant increase in the contract cost reflected a special payment in 1988 in settlement of a contractual dispute. This dispute concerned a claim from the contractor that their productivity had been adversely affected by inadequate computer response time. In view of the significant additional costs incurred the contractor lodged a claim for damages from the FAO. The claim was examined in conjunction with a counter claim from the FAO in respect of late delivery under the contract and resulted in a negotiated settlement of \$250,000 in favour of the contractor. Although the delivery of the final Phases of the project suffered further slippage, this was the only occasion during the development of FINSYS/PERSYS that the FAO invoked the penalty clause contained in the contract.

61. In the first independent assessment report the consultants had pointed out that a potential drawback with fixed price contracts in complex computer projects is that, faced with escalating costs, the contractor may attempt to cut corners. My staff's examination revealed no evidence of this, although in the latter stages of the project there were occasions when the contractor and the FAO became involved in time consuming negotiations about whether certain tasks were within the scope of the contract or not. Nevertheless it is apparent that the FAO successfully contained the contract costs associated with the development of the new system and consumed far more of the contractor's time and effort than was originally envisaged in the contract. In this way the FAO maximised the value obtained for the money paid to the contractor.

Management Tool

62. During the five year development stage a team of up to 45 computer programmers was employed on FINSYS/PERSYS by the contractor, together with about 20 staff from the FAO, although relatively few of these staff were engaged full time on the project. During this time over 2000 computer programs and 70 separately identifiable components were produced, ranging from the

design of a new general ledger coding system through to system testing. In order to control and co-ordinate the large number of activities and tasks that had to be completed it was necessary to employ a computerised project management tool.

63. The importance of selecting an appropriate project management tool was stressed by the consultants in their first independent assessment report of October 1985. In their second assessment report of July 1986, they expressed reservations about whether the low cost attributed to the tool selected by the FAO justified its operational drawbacks. They believed a more efficient and effective project management tool for such an ambitious computer development could have been chosen by the FAO. Particular weaknesses highlighted by the consultants included the failure of the project management tool to break down costs and highlight cost overruns. They also found inconsistencies between different reports produced and noted that it took a considerable amount of time, involving duplication of data input, to produce a consolidated report which covered the progress of both the FAO and the contractor. The Organization informed my staff that the costs associated with more comprehensive project management tools were considered too prohibitive.

64. A review of the project management reports produced by the FAO during the development stage confirmed the consultant's assessment. Although implementation of FINSYS/PERSYS was rescheduled in August 1988, my staff found that the reports did not always clearly identify the impact of slippage on the planned project finish date; in addition the inter-relationship of activities was not clearly shown and the full cost incurred on each activity was not identified. Such shortcomings severely compromised effective project management and, in my view, the FAO was poorly placed to ensure that the slippage and cost overruns that did occur were identified in time to take the most appropriate corrective action. Although project status reports produced by the contractor identified the main achievements and management issues to be addressed, they did not facilitate sufficiently close control of individual project activities by the Organization.

Testing the New Systems

65. It is essential that new and complex computer systems are thoroughly tested, before implementation, in a live production environment. If testing is inadequate there is a greatly increased risk that a new system will not function as designed and that costly action will be required to correct errors discovered after implementation. The FAO produced a testing plan in conjunction with the contractor which included five stages.

- (a) Walk-through Process: a visual check of computer programs by the FAO working in conjunction with the contractor.
- (b) Computer Program Testing: individual programs tested to ensure they function correctly.
- (c) Unit Testing: related programs tested together to ensure they function correctly as a unit.
- (d) System Testing: individual units tested in conjunction with related units to test how the system as a whole functions.

- (e) Operational Testing: testing of the whole system in a situation which closely resembles how it would operate in a live production environment.

66. The consultants reviewed the testing strategy for Phase I of the project in July 1987 and concluded that:

- (a) "The Phase I testing phase was carried out to an inconsistent degree of thoroughness across the contractor's teams as a whole ... the program testing was not, in all cases, as thorough as one might expect."
- (b) "Unit Testing was undertaken by the FAO computer application team - a group of people too few in number to undertake the task of testing such a high volume and complex group of programs ... The team was extended by bringing users in to assist in the testing operation ... but arguably they lacked the depth of knowledge ideally required for the task."
- (c) "The high error rate resulting from the unit testing was higher than one would anticipate, and we believe the combination of the two factors [referred to above] are the main causes."

67. The consultants also recommended that system testing, which was not then underway, should be started only when unit testing had reached a satisfactory stage. At the time they conducted their review the FAO was planning to implement Phase I in early 1988 but, following the consultant's recommendations, the FAO adhered to the planned testing strategy and did not implement the payroll and personnel systems until April 1989. This delay allowed the completion of extensive operational testing, including running of the existing and new systems in parallel, to ensure that output from the new system was at least as reliable as that produced by the old one. This parallel running, which included resolution of a number of problems that emerged, was completed on 10 April 1989 and contributed to the largely successful implementation of the integrated payroll and personnel system on 14 April 1989.

68. Whilst the testing strategy adopted for Phase I was closely followed, the testing for Phases II and III of FINSYS/PERSYS was not so rigorous. In particular, operational testing or parallel running was not planned. The FAO considered it impracticable and costly given the limited resources available and the time consuming technical problems which would have had to be overcome. However, unit and system testing was performed; in addition business case testing was introduced to see how the new system processed transactions designed to mimic actual processing as closely as possible.

69. My staff reviewed the unit, system and business case testing and were concerned to note the relatively low volume of transactions checked and the generally poor quality of supporting documentation. On the basis of the documentation available it was not possible to ascertain the precise amount of testing performed, nor to be certain that all areas had been tested or even whether the results obtained were satisfactory. Where problems were found it is not clear from the documentation what, if any, follow up action was taken. Moreover, the results do not appear to have been

consolidated in a manner which would have enabled the senior management of the Organization to assess the outcome of the exercise or to appreciate the extent and significance of the problems discovered during the limited testing. Many of the problems that subsequently came to light should have been identified by a more comprehensive testing strategy. I recommend that the Organization should always follow exacting standards of testing for all new or enhanced computer projects in order to reduce the risks of a recurrence of the problems experienced in the later Phases of FINSYS/PERSYS.

System Acceptance

70. Before accepting a new system from a contractor it is essential that effective procedures are in place to ensure that the delivered modules and sub-systems conform to the requirements set out in the original system design. My staff's review revealed that the FAO relied almost entirely on unit and system testing to identify divergences from design. This approach, although an essential element of quality assurance and acceptance procedures, does not seem to have been comprehensive. For Phase I of the project key members of the Organization's computer applications team certified the delivery and acceptance of all relevant components provided by the contractor. However, this certification procedure was not enforced for Phases II and III of the project. For instance, it was only following an examination conducted by my staff in July 1991 that it became evident that a key control included in the system design document had not been installed. This control was designed to provide a daily check that all transactions and accounting entries had been correctly processed and to identify and report any discrepancies or imbalances. As the function was fundamental to assuring the integrity of accounting and financial data, it is a matter of concern that the FAO should have failed to detect its omission.

System Implementation

71. A detailed implementation schedule to ensure that all necessary preliminary activities for Phases II and III were completed in time was produced by the FAO in October 1989. It covered 14 different areas, including installation of computer hardware, conversion of data from the old to the new system and provision of training to users. The plan was comprehensive and assigned responsibility for some 300 tasks and established clear deadlines for completion. Due to shortcomings in the way in which records were maintained, my staff were unable to establish the extent of compliance with the original plan and the adjustments to the plan that were made over the period. My staff therefore sought to assess the status of the project immediately prior to its implementation and the procedures adopted to confirm that the new system was ready to be implemented.

72. It is clear from project status reports presented to the Steering Committee that significant units for Phase II and III were not available on time and that other preparations were at best only partially complete. For example:

- (a) security arrangements to control access to the system were not yet fully developed;

- (b) new sub-systems for processing staff appointments, recruitment, after service medical care and rental subsidies were not complete;
- (c) interfaces between FINSYS/PERSYS and other systems were not fully developed or tested;
- (d) testing of procedures for the conversion of data from the old to the new system remained outstanding;
- (e) computer reports were restricted in number, were largely untested and required considerable development before they would meet the needs of users;
- (f) payroll accounting programs, covering over 60 per cent of the Organization's total cash expenditure, were not completed; thus, although the monthly payroll could be processed and paid, it could not be recorded in the general ledger;
- (g) almost 200 official reports, mostly requesting changes to the new system, had been raised during the limited testing and remained outstanding as they were not considered absolutely necessary;
- (h) training or familiarisation on the new system had barely got underway and comprehensive procedure instructions to guide users had not been issued; and
- (i) the capacity of the mainframe computers to operate FINSYS/PERSYS had not been fully established. Some estimates suggested that a much more powerful computer facility would be required if system performance, and response time in particular, were to be acceptable to users.

73. The consultants commissioned in February 1990 to review the adequacy of the Organization's preparations for the implementation of FINSYS/PERSYS concluded that "... the Organization has effectively taken a calculated risk in deciding to implement the system. This decision has been based upon the business need of going live as at 1 January 1990, also dictated by contractual requirements, against having a fully tested system and completely developed procedures prior to implementation."

74. The consultants considered that shortcomings in the testing, insufficient user training and weaknesses in controls in the computer environment had resulted in the Organization taking significant risks in bringing the new accounting system into operation in January 1990. The consultants also considered these risks were likely to be even greater for Phase III (travel sub-system) which was implemented in February 1990.

75. The shortcomings in preparations for the implementation of Phases II and III were also the source of considerable concern within operational divisions. My staff found that the Agriculture Department had informed the Administration and Finance Department that they would be unable to implement the new system in January 1990. However, these warnings were met by firm assurances from the Administration and Finance Department that implementation could and should go ahead as planned.

76. My staff have been informed that the Administration and Finance Department knew there were some risks attached to the later phases of FINSYS/PERSYS going live but concluded that the system had to be implemented at the start of a new biennium and that the Organization, and the contractor, could not afford the additional costs involved, or maintain the momentum of the project, if implementation of the remaining Phases was further delayed. The Organization contended that "the introduction of a large new system, such as FINSYS/PERSYS is always a problematic undertaking, whether in statel or private organisations, institutions or commercial companies. Smooth and trouble free development of such systems is the exception rather than the rule". These factors, the FAO argued, presented a compelling business need to go live in 1990 and, although it would have been preferable to have had all FINSYS/PERSYS units ready for implementation, the Organization did not consider it absolutely necessary.

77. Given the large number of unresolved problems and the limited testing of the system, I am concerned to note that, at the time the decision to implement the final phases of FINSYS/PERSYS was taken, it was made without the benefit of a thorough and documented evaluation of the risks involved and of the possible consequences. Although, in my view, there are occasions when the taking of calculated risks may be justifiable, I do not believe that mainstream financial and administrative systems should be exposed to such significant uncertainties.

Problems Experienced on Implementation

78. The implementation of the final Phases of the project resulted in severe operational problems which eventually led to discussion at the Steering Committee in November 1990 of whether or not to recommend that the project should be abandoned. In practice, it was by that time impracticable to withdraw the new system as the Organization was nearly half way through the biennium and did not have any contingency plans or alternative processing arrangements on which to fall back.

79. An indication of the scale of the problems affecting the system is provided by an analysis of the number of problem reports and system change requests lodged during the period April 1990 to June 1991.

Table 2: FINSYS/PERSYS Problem and System Change Reports

Period Ending	Number of Reports Logged	Number of Reports Cleared	Number of Reports Outstanding at Period end
April 1990	-	-	381
June 1990	192	127	446
September 1990	353	280	519
December 1990	269	212	576
March 1991	288	226	638
June 1991	236	186	688

The problems reported by users manifested themselves in a number of severe operational difficulties and made the Organization's interim financial and accounting records extremely difficult to interpret. At June 1991 over half of the 688 problem reports outstanding had been assessed as requiring urgent remedial action, although only 28 were assessed by the Administration and Finance Department as being a priority for the preparation of the biennial Financial Statements. Some of the most significant problems experienced in 1990-91 are outlined below.

Suspense Accounts

80. For each type of transaction, for instance payroll costs, travel expenditure or contribution income, entries to the general ledger are made automatically by the computer. This is intended to reduce the number of coding errors as users are prevented, in theory, from entering incorrect accounting codes. However, if the information input to the computer is incomplete, the system may not be able to identify the appropriate general ledger account code. In these circumstances the transaction is posted to a suspense account temporarily until enough information is available to post it correctly.

81. By the end of July 1991 the volume and value of transactions posted to suspense or similar clearing accounts reached the unprecedented level of almost \$400 million and involved over 160 different general ledger accounting codes. A large number of these suspense account postings were a consequence of the Administration and Finance Department's decision to remove key computer edit controls over personnel data input to the system. This enabled users to input incomplete accounting information and, although personnel actions could be successfully performed, the corresponding accounting entries were made to suspense accounts. The removal of these key computer edits without full consideration of the consequences was symptomatic of significant control weaknesses in the computer environment.

82. Because the transactions were not fully accounted for there was a corresponding effect on all related financial reports; consequently expenditure on individual projects executed by the FAO was incompletely recorded. In order to attempt to interpret the accounting entries in the general ledger it was often necessary to estimate the actual income or expenditure concerned. A technique of netting-off associated accounting entries was widely employed in the production of the Organization's unaudited interim Financial Statements for 1990.

Processing Backlogs

83. The system problems, combined with the need for staff to become fully conversant with new requirements and procedures, had a dramatic impact upon the productivity of the Organization's staff. This was particularly evident in areas with large volumes of documents to process and where users were now directly responsible for the input of transactions to the computer. Under the old system, computer input forms were prepared by users and then forwarded to a central team of data processing staff for input and processing. The major backlogs which arose during 1990-91 are shown in the table below.

Table 3: Examples of Processing Backlogs at 31 July 1991

Area of Accounting work	Number Outstanding
Bank Reconciliation (lines of input)	19,800
Travel Expense Claims	3,127
Invoices from Removals Agent	1,609
Monthly Field Imprest Returns	1,515
Invoices from Travel Agents	927

84. Processing backlogs were generally equivalent to almost six months workload and in some instances related to transactions completed over 12 months earlier. The backlogs directly affected the timeliness of payments made by or recoveries due to the FAO from outside parties and the completeness of the Organization's financial records. They resulted in delays in meeting staff travel claims or paying consultants' expenses and in recovering amounts that had been advanced but not spent by the recipient. The backlog of field imprest account returns meant that funds spent in the field either on projects or by the FAO Representatives were not properly recorded in the Organization's main books of account and that monthly financial reports significantly understated expenditures. The accuracy of financial information was further eroded at that time by numerous input errors and as a result of other unresolved deficiencies in computer programs.

85. Backlogs in bank reconciliation work affected the majority of the Organization's Headquarters accounts, in which over 90 per cent of the Organization's total cash assets are held. In my view this represented a serious breakdown in internal financial control. Failure to reconcile the records of payments and receipts to the amounts shown on bank statements exposed the Organization to the risk of accidental or malicious acts resulting in erroneous payments and even fraud remaining undetected. Although such concerns were subsequently proved unfounded, the Organization would have been unable to detect any losses or misappropriations of funds until such time as the reconciliations were performed. It is also a matter of great concern that the prime records of cash and bank balances were not reconciled at a time when the Organization was entering into borrowing arrangements (see paragraphs 144 to 151).

System Imbalances

86. The fundamental principle underlying double entry book-keeping is that the total value of debits is equal at all times to the total value of credits. This provides a basic control over the integrity of accounting records as any imbalance is readily identifiable and facilitates investigation of the cause of the discrepancy. The preparation of a trial balance at regular, and usually monthly, intervals therefore enables the Organization to ensure the books of account are in balance and to prepare financial reports for management purposes.

87. Other important checks on the integrity of the Organization's accounting records are possible by ensuring that information produced by various parts of the system is consistent. For example, that the amount recorded in the general ledger as total cash expenditure is in agreement with the sum of expenditures

recorded for each individual project or activity. Any discrepancy between the two figures signifies that errors in the Organization's records may exist and casts considerable doubt over the reliability of financial information produced by the system.

88. During the 1990-91 biennium the FINSYS/PERSYS system generated numerous imbalances and errors in the accounting records.

- (a) First, there were imbalances between figures in the general ledger as shown by the trial balances. In 1990 the trial balance failed to sum to zero on several occasions indicating the presence of incomplete or erroneous postings.
- (b) Second, discrepancies between various account codes, amounting to over \$35 million were identified in 1990-91.
- (c) Third, there were material discrepancies between the general ledger record of cash assets and the amounts recorded on the treasury sub-system. For example, as of 30 June 1991, there was an unreconciled difference of \$1.3 million between the Treasury and General Ledger records of Trust Funds cash balances.
- (d) Fourth, the total amounts recorded as income or expenditure in the general ledger differed from the corresponding amounts disclosed in other financial reports. For example the general ledger record of Regular Programme contributions income did not agree with the treasury records of receipts.
- (e) Fifth, the inter-programme account used to process transactions between the various FAO programmes, such as Trust Funds and Regular Programme, should always exhibit a zero balance signifying that a charge to one of the programmes is matched by a corresponding entry in the ledgers of the other. During 1990-91 there were several occasions when the interfund account became out of balance and required manual adjustments.
- (f) Sixth, some computerised calculations failed to work correctly and resulted in erroneous calculations of such items as project support costs, interest on project cash balances and distributions of pooled expenses. These errors were detected and eventually led to some of the calculations being corrected manually and the computer routines concerned being disabled.

Data Corrections

89. The nature of the errors arising on the system, and the large volume and value of data affected, in some cases required a great deal of computer programming effort to resolve. To prevent unauthorised and incorrect adjustments to accounting records and related financial data, it is essential that proper controls are in place. Regrettably, until three quarters of the way through the 1990-91 biennium, the FAO did not impose adequate controls over the computer environment or individual programmers. As a result my staff found that, where accounting records had been corrected by computer programs, it was not possible in some cases to verify easily the regularity of the action taken. Weaknesses in internal controls included:

- (a) lack of proper control over programming staff enabling programs to be amended and put into operation without formal approval from management. The level and adequacy of testing performed on newly developed and amended programs or corrections of data was left largely to individual programmers to determine;
- (b) the absence of, or incomplete, documentation concerning the nature of problems requiring correction and on the outcome of the work performed; and
- (c) lack of evidence of any formal review of the outcome of the data corrections, and no formal sign-off by users that they had been made correctly.

90. As a result of hurried implementation of some data corrections, together with inadequate testing and review of the outcome, the programs sometimes failed to achieve the desired result. In many cases initial data corrections generated errors elsewhere in the system that required further corrective action. Such occurrences added to confusion on the part of users and further eroded confidence in the new system. In the closing months of the 1990-91 biennium the Organization took action to remedy the weaknesses identified by my staff and to ensure that adequate controls were imposed over the computer environment and individual programmers.

Report Facilities

91. FINSYS/PERSYS was designed as an on-line system and therefore allows users to access directly the data held on it. The original concept also envisaged the provision of a query facility to enable users to specify and produce ad hoc reports in addition to standard reports. However, very few users were trained in the use of this query facility and only a limited range of the standard financial reports was available. In addition some of the ad hoc reports requested by users required an unacceptable amount of computer processing time to produce and this facility had to be largely withdrawn.

92. As a consequence of the the lack of comprehensive financial reports users faced extreme difficulties. Throughout the biennium users complained that the information obtained on-line through their computer terminals did not always agree with the information subsequently contained in computer produced reports. Key items, such as monthly financial reports and transaction listings, were not available until September 1990, but had under the old system been produced regularly and were considered vital to the management and control of expenditure throughout the Organization. The absence of these reports meant that users could not readily identify expenditures against budgets or projects, and posed major problems for staff operating in the field who do not have on-line access to FINSYS/PERSYS. Although the impact of these problems seems to have been generally non-financial, in one case an error in a computer produced report resulted in an accumulated overpayment of \$1.7 million to the Organization's medical insurance scheme. The Organization detected the overpayment in mid 1991 and was able to effect recovery of the full amount.

Closure of Accounting Period

93. The FAO produces Financial Statements based upon a two year period. Within each biennium however there are both monthly and annual accounting periods at the end of which the general ledgers are closed and the balances carried forward to the next accounting period. Each accounting period is closed automatically through the activation of specific computer programs and routines. These automated closure routines had not been fully developed or tested prior to the implementation of FINSYS/PERSYS and significant problems were subsequently encountered with the closure of the 1990 accounts.

94. Some of the problems arose from the way FINSYS/PERSYS was designed. Traditionally, the FAO required a number of weeks to complete the various stages involved in the closure of annual and biennium accounts and it was therefore necessary during these periods to have both the old and the current accounting periods open. For example, in January 1991 it was necessary to be able to perform closure routines relating to 1990 and at the same time open the 1991 financial accounting period in order to record transactions occurring after 1 January 1991. However FINSYS/PERSYS cannot safely operate two open accounting periods due to the high risk of mis-postings between periods, and the closure of the 1990 accounts therefore proved extremely complicated. Problems initially encountered included a failure to apportion pooled costs correctly between the various programmes.

Resource Constraints

95. It had become clear during 1990 that the FAO did not have sufficient skilled computer staff resources at its disposal to clear all the system problems. By June 1990 the contractor's staff had been withdrawn, although a small number of staff from the contractor were loaned back to the FAO for short intervals. There can be little doubt that the FAO team of six programmers was insufficient to maintain a problem-ridden system as large and complex as FINSYS/PERSYS.

96. The need for more programmers to maintain FINSYS/PERSYS had been discussed at length prior to the implementation of the system. Estimates ranged between a requirement for 11 and 20 programmers. In 1989 consultants, in one of their examinations carried out as part of the reviews of administrative questions conducted alongside the "Major Review of Certain Aspects of FAO's Goals and Operations", cast major doubts about a number of aspects of the developing system, including the adequacy of the Organization's computer staff resources. In response, the FAO noted the consultant's concerns and stated that some aspects of the developing project "... will need further attention and there may of course be others yet to emerge when the users start making new demands on the system". However the freezing and abolition of posts resulting from the Organization's financial crisis at that time appears to have deterred senior managers from presenting a formal case for additional computer staff resources. I am pleased to note that resources have now been found to strengthen the staffing of the Computer Services Division.

97. The staff in the Finance Division were also overstretched in familiarising themselves with and implementing such a large system as FINSYS/PERSYS, at the same time as carrying on with their day to day work. Only when the old system was closed could the Finance Division begin converting general ledger balances to the new system and devote their undivided attention to the problems being experienced by users, many of whom turned directly to them for assistance. I am pleased to note this situation has now been rectified as part of the remedial action taken to turn the project round.

Computer Installation

98. The computer hardware used to operate FINSYS/PERSYS proved insufficiently powerful to meet the needs of users. Some transactions and inquiries took an inordinate length of time to process while users waited at their terminals for the system to respond. In some areas delays of over 30 minutes were experienced in the processing of transactions and, although these were exceptional cases, they clearly illustrate that the system capacity, and in some areas the system design, required improving. Although some problems with response time were alleviated by modifying the way in which transactions were processed, FINSYS/PERSYS as a whole did not perform to the standard that should be expected from a real-time system. The system performance problems were largely remedied in September 1991 with the acquisition of a new and additional mainframe computer.

99. As part of their review of the preparations for implementing FINSYS/PERSYS consultants commented upon the absence of contingency plans in the event that the installation suffered accidental or deliberate damage and recommended that a full Disaster Recovery Plan be developed. In their view, which I share, the volume of data processed by FINSYS/PERSYS is of such magnitude that an installation disaster could rapidly become irretrievable. The FAO has taken some steps to improve the security of the system, but have still not developed any plan to cope with a serious systems failure. I recommend that proper standby and recovery arrangements should be developed to protect the Organization against partial or complete systems failures. Detailed contingency plans should lay down the steps to be taken in the event of such failures and should be available and understood by the staff responsible for implementing recovery action.

Interim External Audit

100. The status of the new accounting system was kept under review by my staff during the completion of my audit of the 1988-89 Financial Statements. In August 1990 my staff wrote to the Director of Finance regarding the serious backlogs in the processing of bank reconciliation work and imprest accounts. In response, my staff were assured by the Organization that recourse to unlimited overtime and extensive weekend working was expected to bring the situation under control by the end of February 1991. However, in view of the scale of the problems, my staff, including computer audit specialists, undertook two special reviews in December 1990 and July 1991 to assess the situation and review the steps the Organization was taking to tackle the critical problem areas.

101. The second of these reviews carried out by my staff confirmed that the new financial and accounting systems were still in a state of crisis, in that key management and procedural controls over computer operations had almost completely broken down and insufficient remedial action was being taken. Major processing backlogs still existed in many areas, including bank reconciliations and imprest accounts. The value and volume of postings to suspense accounts was unprecedented and no significant progress had been made in clearing them. System deficiencies and poor controls in the computer environment raised serious doubts about the integrity and accuracy of accounting data. The results of this interim audit and the potential implications for my audit certificates were reported to the Administration and Finance Department in July 1991 and then set out in an interim management letter to the Director-General.

Remedial Action

102. Despite the scale of the problems being experienced with FINSYS/PERSYS, there appears to have been a general reluctance within the Administration and Finance Department to acknowledge their seriousness. In February 1990 the Director-General was informed by the former Assistant Director-General/Administration and Finance that "... the system has been implemented successfully". This assurance was repeated in May 1990 and was followed by a categorical denial of any major problems in November 1990. The limited remedial action taken by the FAO in 1990 was consistent with this optimistic assessment of the new system and only some \$100,000 of additional funding for FINSYS/PERSYS was requested.

103. The action initially taken by the FAO in response to the growing problems with FINSYS/PERSYS was therefore characterised by a confidence in the Organization's ability to resolve them that does not appear to my staff to have been warranted, given the scale of the problems and the limited resources available to the project at that time. However, as the difficulties increased and complaints became stronger and more frequent, including queries raised by member governments, Trust Fund donors and other United Nations agencies, it became clear that the problems were impeding the efficiency of the Organization and that urgent action needed to be taken if a complete systems failure was to be averted.

104. Alerted to the seriousness of the situation by Internal Audit, the Director-General called a series of meetings of senior managers in the latter half of 1990 to discuss the problems and request immediate and concerted action. To assist in the identification and resolution of the problems the Director-General established an ad hoc sub-committee of the Information Systems and Resources Committee (ISRC), bringing together representatives from all major operational divisions. In February 1991 a proposal was tabled in response to the Director-General's request, which called for additional resources of \$3.6 million of which \$1.8 million was earmarked for resolving immediate operational problems. This proposal was examined by the User Group of the ISRC and put forward for approval. However, the problems proved more deep rooted than expected and only very limited progress was made despite this injection of additional funds.

105. Following closely on the appointment of a new Assistant Director-General/Administration and Finance in July 1991, together with my staff's warnings, the situation was classed as an emergency. Priority was given to the production of a plan of remedial action, which clearly defined the extent of problems to be tackled and detailed the tasks necessary to resolve them, together with the estimated date for completion and the resources required. This plan was produced by September 1991 with the ambitious aim of resolving the major problems by the end of November 1991. In order to strengthen the management and control of progress against the action plan, consultants were employed in a project co-ordinating role.

106. The resources required to implement the plan were substantial.

- (a) Redeployment of eight accountants from Internal Audit and more than 20 staff from other areas into the treasury and accounts branches to help eliminate the processing backlogs and clear suspense accounts.
- (b) Recruitment of five additional programmers to the Computer Services Division to deal with known system problems and to improve system maintenance in general.
- (c) Use of many temporary staff and authorization of considerable overtime.
- (d) Re-assessment of annual leave plans and curtailment of leave for key members of the Administration and Finance Department.
- (e) Use of consultants to provide continuing expert advice and guidance on aspects of FINSYS/PERSYS. They were also contracted to implement improved system security controls to prevent unauthorised access to the system.
- (f) The leasing, with the option to purchase, of a powerful additional mainframe computer to overcome inadequate system performance.

107. To clear the vast sums held in suspense accounts, eight teams were organised and each assigned a specific number of accounts to review. Specially designed proformae were developed to facilitate control of all clearance actions; every action had to be approved by relevant managers in the Finance Division and verified by a staff member from Internal Audit. As the suspense account balances were cleared resources were released to other problem areas. This approach was also applied to subsequent accounting assurance work carried out in 1992. The accounting assurance work involved verifying the reasonableness of amounts recorded in the general ledger and the resolution of accounting discrepancies amounting to over \$35 million. The formal and well documented approach to this essential work provided my staff with a clear audit trail to follow and enabled them to satisfy themselves that appropriate corrective action had been taken.

108. The recruitment of temporary staff, including retired staff members from the FAO and staff from local accountancy firms, also assisted in the clearance of suspense accounts and other backlogs of work. In some cases the Organization was able to obtain the services on a temporary basis of key members of the original

programming team employed by the contractor during the development of FINSYS/PERSYS. The FAO was also successful in persuading some of the contractor's staff to re-join the Organization as full-time employees. The recruitment of experts familiar with the software used in FINSYS/PERSYS provided clear advantages to the FAO and minimised the time required for them to become effective members of the computer applications team.

109. In the same period, organisational changes were also made within the Computer Services Division, in accordance with recommendations contained in earlier consultants' reports and my staff's interim management letter. In particular, improved system security was invoked including the designation of a full time System Security Officer. Procedures for performing data corrections were tightened and stronger controls introduced over the way computer programs were developed or amended. Adequate testing of all system changes was made mandatory and formal procedures introduced for obtaining appropriate authorisation and confirmation from users that amended programs or data corrections worked satisfactorily.

110. The extensive use made of consultants during the emergency helped ensure the action plan was implemented smoothly and effectively. In addition other specific consultancy assignments were completed in November 1991 in the areas of data security policies and standards. A detailed review of FINSYS/PERSYS and the surrounding procedures was released in February 1992. This yielded valuable results and made important recommendations for the future.

111. The lease of a new and powerful computer, together with additional peripheral equipment, to enhance system performance, produced a dramatic improvement consistent with the doubling of computer capacity. This development was well received by users, many of whom commented on the noticeable improvement in system performance and response time.

112. The emergency exercise continued to April 1992. Throughout this period progress against the action plan was closely controlled and reported in weekly reports by the consultant acting as project co-ordinator. My staff received copies of progress reports and were kept informed of developments through liaison meetings with the new Assistant Director-General/Administration and Finance and his project team. The total cost of the resources utilized on all the remedial action is estimated by my staff at \$4.9 million as at 31 December 1991, of which approximately \$1 million was paid to consultants for their assistance.

113. The action taken ensured that the whole exercise was tightly controlled and that absolute priority was devoted to the production of reliable financial and accounting records. The impact of the measures adopted was immediate and significant and addressed the key areas set out in my staff's interim management letter.

- (a) The processing backlogs of field imprest returns and bank reconciliations were virtually eliminated. By the end of January 1992 the processing of imprest accounts and bank reconciliations was more up to date than at the corresponding point after the end of the 1988-89 biennium.

- (b) Over 95 per cent (\$375 million) of the amounts posted to suspense accounts were cleared to the appropriate income or expenditure accounts.
- (c) By the end of April 1992 accounting discrepancies amounting to more than \$35 million had been satisfactorily explained and corrected, including those relating to the key areas of payroll expenditure and the Organization's cash and bank records.
- (d) Security, procedural and management controls surrounding the computer environment had been strengthened.
- (e) A range of computer assurance reports were developed to provide early notice of any system imbalances arising in the future and thus helping to ensure that errors could be more readily identified and corrected.

114. To avoid a recurrence of the major problems encountered with the 1990 interim accounts when initial mis-postings between accounting periods occurred, the biennium closure process was subject to closer management planning and control and the relevant computer programs were subjected to thorough testing. In addition, to overcome the potential problems associated with running two open accounting periods, the FAO decided that the 1992-93 biennium would not be open to users until mid-January 1992 and that the 1990-91 biennium would never be open at the same time as 1992-93. To achieve this the Organization arranged for one day each week to be devoted to processing 1990-91 transactions or adjustments and that during this time the 1992-93 accounting period would be closed. This procedure for opening and closing the 1990-91 books of account proved necessary until the end of April 1992. As a result final Financial Statements for the biennium were not presented for external audit until May 1992.

115. In order to speed up the closure process, field imprest holders were instructed to close their local accounting records on 15 December 1991 and submit their imprest returns immediately to the FAO Headquarters for processing. They were further instructed not to process any 1990-91 transactions in the period 16 to 31 December 1991. The decision to introduce an early cut-off date for field operations represents a significant departure from the previous practice. If this initiative is maintained in the longer term it may assist the Organization in producing Financial Statements closer to the end of the biennium, a development I would welcome.

External Audit of Financial Statements 1990-91

116. The Organization carried out a lengthy and meticulous check of accounting entries to identify the scale of the problems. The comprehensive and well documented remedial action taken by the Organization, as set out in paragraphs 102 to 115 above, successfully addressed the critical problem areas raised in the interim management letter of August 1991.

117. The extensive testing performed by my staff, and additional work in areas assessed as presenting higher risk of error, was carried out with generally satisfactory results. I also examined the figures shown on the face of all the Financial Statements,

Schedules and accompanying Notes. These did not reveal any significant or unexplained variations from the figures for the previous biennium; any differences inconsistent with my knowledge of changes in activities; any significant differences from the approved Programme of Work and Budget, to which a number of Inter-Chapter budgetary transfers were approved by the Finance Committee. As a result I am satisfied that the computer accounting problems have not resulted in errors material to the accuracy, completeness and validity of the final Financial Statements as a whole. I was therefore able to certify that the accounts prepared by the FAO were fairly presented as at 31 December 1991.

118. It is apparent however, from my examination, that in 1990-91 the new system required excessive effort to maintain and that the production of satisfactory Financial Statements involved a resource intensive exercise that should not be necessary with automated accounting systems. It is clear to me that, without the extraordinary measures taken by the FAO, it would not have been possible to give unqualified opinions on the accounts of the FAO. Indeed, in my view, had the recovery process begun any later, or been pursued with any less vigour, it is doubtful that the FAO would have been able to prepare satisfactory Financial Statements.

119. A large number of transactions checked by my staff were found to be adjustments entered by FAO staff to correct earlier system errors and mis-postings. Although I am pleased to note that the FAO had satisfactorily identified and corrected the errors in the 1990-91 accounting records, I am concerned that the remaining underlying system problems should be resolved quickly so that the FAO can more readily produce reliable Financial Statements. If permanent solutions are not found in the 1992-93 biennium, it is possible that another expensive and resource intensive emergency exercise, albeit on a smaller scale, will be required. A number of other matters arising from my audit are referred to in the Financial Matters section of this Report (paragraphs 137 to 186).

Financial Appraisal of FINSYS/PERSYS

120. The projected benefits associated with major computer projects play a major role in determining whether a proposal is approved for development. The FAO set out the objectives of FINSYS/PERSYS clearly at the planning stage. The Organization envisaged that the system would:

- (a) control administrative costs more effectively;
- (b) improve the timeliness and quality of financial and personnel management services;
- (c) provide more accurate, complete and timely information for management decision making;
- (d) establish a foundation for future transaction-based automated systems throughout the FAO; and
- (e) improve the efficiency, effectiveness and productivity of the FAO staff.

121. Although the FINSYS/PERSYS project was not justified solely on the basis of financial criteria, the FAO conducted a detailed evaluation in 1985 to identify the benefits and savings that could be expected to accrue from implementing the new systems. In addition to the benefits to be derived from having more up to date management information and better control over administrative functions, the FAO originally estimated there would be annual savings of \$2.5 million. Whilst the FAO did not anticipate that these savings would automatically translate into budgetary savings, it expected that the elimination of highly intensive manual activities would result in freeing up resources for important operational activities. The cost for the full development of the system was estimated at about \$8 million (excluding staff costs) which the FAO expected would be recovered within four years of implementation and paid back more than triple over the life of the system. In September 1987 the prospective benefits and savings were reported to the FAO Finance Committee who were told that the financial appraisal would be continually updated over the life of the project and that a final evaluation of FINSYS/PERSYS would be conducted once the new system had been fully implemented.

122. Initially the FAO hoped to attract interest in FINSYS/PERSYS from other United Nations bodies in order to share the benefits and high development costs of an integrated financial and personnel system. At one stage the United Nations was prepared to pay the FAO \$2.9 million in return for the right to use the finished system. Negotiations came to an end when the FAO decided that it was unable to provide the level of assistance that would be required by the United Nations for less than \$4.5 million.

123. From September 1987 regular six-monthly reports of FINSYS/PERSYS development costs were provided to the FAO Finance Committee, culminating in a final report in May 1990 at which time the total costs of the project, including the Organization's staff costs, were reported to be \$18.9 million. The only revision to the original appraisal was made in May 1988 when the impact of increased computer-related maintenance costs was expected to reduce the value of annual net benefits from \$2.5 million to \$1.9 million.

Review of Cost of System

124. My staff examined the information available and concluded that the costs reported to the FAO Finance Committee underestimated the actual costs incurred by the Organization. For example, internal staff costs reported by the FAO generally included only those staff who had devoted more than 50 per cent of their time to the project. In addition the cost of computer hardware dedicated to FINSYS/PERSYS was not closely monitored and the full cost of initially upgrading the Organization's computer mainframe, and installing laser printers and terminals, is probably underestimated. The Organization considers that, with the exception of the Computer Applications Team, all staff continued to perform their regular duties and therefore their costs should not be attributed directly to FINSYS/PERSYS. However, the sheer scale of the task of developing and implementing the new system, led to many routine duties being suspended and diverted staff from financial management tasks which they could have been expected to complete. I therefore consider it is necessary to recognise the full costs associated with the development and implementation of new systems.

125. In view of the scale of the problems and the extent of the remedial action, my staff reviewed the full costs associated with FINSYS/PERSYS. On the basis of the available information they estimated that the total costs incurred on the design, development and implementation of FINSYS/PERSYS up to 31 December 1991 exceeded \$30 million. A breakdown of these costs in cash terms is shown in the table below.

Table 4: Estimated Total Cost of FINSYS/PERSYS

Activity	Cost \$'000
General and Detail Designs	630
FAO Staff Costs (inc. overtime)	18,600
Development and Implementation by Contractor	7,500
Computer Hardware	2,250
Authors' Contracts	950
Temporary Assistance	260
TOTAL COST	\$30,190

126. Escalating costs are a feature of many large computerisation projects and the Organization's experience is not unique. In addition, although the estimated total cost is significantly greater than originally envisaged, it represents a relatively small proportion of total Regular Programme expenditures over the period the new system was being developed. However, due to the scale of the problems experienced some \$7 million, equivalent to almost 25 per cent of the total project costs, was incurred in the 1990-91 biennium; most of this was related to rectifying problems with the new system. Significant costs in this area are set out in Table 5.

Table 5: Estimated Cost of Rectifying FINSYS/PERSYS Problems
as at 31 December 1991

Activity	Cost \$'000
Additional Staff Costs, including overtime	3,250
Consultancy Costs	1,000
Acquisition and Upgrade of Hardware to overcome inadequate response time	500
Reassignment of Internal Audit Staff	150
TOTAL	4,900

127. In assessing the full cost of the project my staff have been hindered by the deficiencies in the financial monitoring system used by the FAO. Although exercises were conducted to estimate the development costs, the FAO did not establish a budgetary mechanism to gather all relevant costing data nor was the project subject to standard budgetary control procedures. As a result of these weaknesses some uncertainty remains regarding the total costs of the project. In my view, it is important that these costs are

identified by the Organization in order to ensure full accountability for the resources consumed and to inform future decisions regarding the likely costs associated with any further developments or enhancements to FINSYS/PERSYS. I further recommend that, in future, separate budgetary provision is made for major computer projects to enable costs to be more accurately monitored, controlled and properly reported.

Review of Benefits of System

128. Savings envisaged from FINSYS/PERSYS were primarily of two types: a reduction in the use of computer resources and enhanced productivity to be achieved through better control of administrative costs and the improved quality of financial and personnel management services. In reviewing the achievement of these savings my staff were again hampered by the Organization's failure to update the original evaluation and because a post implementation review has not yet been carried out. The Organization informed my staff, that in its view, most reviews of the actual savings generated by a system begin two or three years after the initial implementation. It is therefore, in the Organization's view, unlikely that any useful data will be available before the 1994-95 biennium.

129. My staff found that savings in computer resources were never a realistic prospect. The implementation of an integrated real-time database system on the scale of FINSYS/PERSYS was not likely to reduce the amount of computer processing required. Indeed my staff found that, between the base year of 1985 and May 1991, the volume of computer transactions processed rose to 250 per cent of the original level and printed computer output rose twelve-fold to over 50 million lines of print. In addition, the ongoing maintenance of a real time and on line system of the complexity of FINSYS/PERSYS required more computer staff resources than the old system.

130. On the administrative side the FAO Programme of Work and Budget has identified four staff posts saved as a result of the implementation of FINSYS/PERSYS, all located in the personnel services area. In other areas my staff consider that, on the basis of the current design of the system, improved productivity is not being realised. The new systems were intended to revolutionise the Organization's working practices, yet the clerical and administrative procedures surrounding FINSYS/PERSYS have remained virtually unchanged. Consequently there is significant duplication of effort in some areas, for example obtaining documented approvals and authorisations of transactions in addition to the on-line electronic approvals required by the system. To date maintaining the system has necessitated the use of significant additional staff resources. This is borne out in the Programme of Work and Budget for the 1992-93 biennium which provides for no further reductions in established posts as a result of the introduction of FINSYS/PERSYS. It is essential however, in my view, that the Organization does not lose sight of the original benefits expected. I therefore recommend that divisions are asked to review the impact of the new system on both administrative procedures and staffing levels, with the aim of eliminating inefficient working practices and obtaining maximum possible savings in future biennium.

131. It is also evident that significant additional costs and inefficiencies are imposed by aspects of the system which are cumbersome to operate, notably the travel sub-system which has attracted universal criticism from users and currently requires more clerical effort to process transactions than under the old system. There are also other aspects of the system which could be linked more effectively to avoid costly duplication, for example the travel, payroll, payments and general ledger sub-systems.

132. In addition the system to date has not delivered many of the non-financial benefits expected to accrue. For example major benefits were expected from the availability of accurate, reliable and up-to-date information to inform and enhance management decision-making. Although in the initial period the high number of errors and inaccuracies discovered during 1990-91 severely eroded confidence in the data produced by FINSYS/PERSYS, information is now readily accessible to users and has the potential to be more up to date than under the old system where monthly reports were the norm. Many users now speak highly of the quality of the on-line information instantly available through the personnel, budgeting and treasury sub-systems. It is also evident that, despite the tremendous and costly problems experienced in 1990-91, the Organization has modernised its financial and personnel systems and that a basic foundation has been laid for future transaction-based automated systems. Providing the system can be stabilized and user confidence restored in all the information obtained from FINSYS/PERSYS, more benefits could accrue to management in the future.

133. Some parts of FINSYS/PERSYS have not yet been implemented and this further reduces the benefits expected to accrue to the Organization. My staff have identified in Table 6 three units of FINSYS/PERSYS which were designed by the contractor and paid for by the FAO but had not been implemented by 31 December 1991.

Table 6: FINSYS/PERSYS Units not Implemented.

FINSYS/PERSYS Unit	Cost US\$'000
Recruitment	262
Appointment	224
After Service Medical Care	74
TOTAL	560

134. Other ancillary aspects of the system do not yet function. Automatic telex sending facilities have not been implemented and the FAO decided to postpone installing FINSYS/PERSYS computer terminals in the on-site bank and travel agents. The failure to maintain comprehensive and up to date documentation of the new systems and weaknesses in the procedures for system acceptance increase the likelihood that there may be other units which are incomplete. In order to establish the true status of the system I recommend that the FAO conducts a thorough check of all aspects of FINSYS/PERSYS against the original design documents. Any apparent shortcomings can then be investigated and, at the same time, the

system documentation updated to reflect the current design. Such an exercise will be of critical importance if further enhancements to the system are needed.

Future Developments

135. In order to assess the scope for taking advantage of all the potential benefits from FINSYS/PERSYS, and for eliminating cumbersome and inefficient procedures, I recommend that the FAO conducts a comprehensive post implementation review of the new system. I note that a functional review of FINSYS/PERSYS has recently been commenced under the auspices of the newly formed Advisory Committee on Financial Management, chaired by the Deputy Director General, and that this will address many of the key areas. The Advisory Committee has also established a Users Group to address some of their main concerns, particularly the Travel Sub-system and financial reports. However, I am concerned that the following areas, some of which have been referred to earlier, should receive specific attention.

- (a) A critical appraisal of the administrative procedures and staffing levels required to support the new system. Particular attention should be paid to those areas which were expected to generate most savings.
- (b) An examination of all outstanding requests for amendments to the system and problems reported. Although precise figures are unavailable, there are at least 400 problem reports still outstanding which were raised prior to the start of the emergency exercise in 1991.
- (c) The quality of systems documentation should be examined to assess how comprehensive, current and adequate it is. Where necessary, systems documentation should be improved. I note that work in this area is underway.
- (d) Recommendations contained in various consultants' reports should be reviewed and the progress towards implementing any outstanding items closely monitored. I note that all high priority recommendations have now been implemented and that remaining recommendations are to be actioned as quickly as practicable.
- (e) A full cost-benefit analysis of the system should be undertaken to identify, in particular, any projected future costs and benefits. In the light of the results of this review the long-term viability of maintaining a real-time system should be addressed.
- (f) Operational running costs of the system should be critically examined to identify any inefficient programs or processes. This may reveal excessive costs in some areas, even though the Organization might consider total running costs acceptable.
- (g) A review of the adequacy of the number of skilled computer staff available for maintaining and enhancing the new system with a view to ensuring that sufficient resources are on hand to cope with likely future demands.

DETAILED FINDINGS ON FINANCIAL MATTERS

Financial Position

Outstanding Contributions

137. Statement III of the Financial Statements and the supporting schedules show that arrears of contributions amounted to \$155 million at 31 December 1991, an increase of \$4 million compared to the position at the end of 1988-89. The table below illustrates the growth in arrears in recent biennium.

Table 7: Contributions and Arrears 1986-1991

	1986-87 \$ million	1988-89 \$ million	1990-91 \$ million
Assessed Contributions	397.2	481.8	557.5
Contributions and Arrears Received	326.3	423.5	552.5
<u>Contributions Unpaid:</u>			
Current Biennium	90.4	103.4	47.8
Previous Biennium	3.5	47.7	107.3
Cumulative Arrears at Biennium end	93.9	151.0	155.3

138. Following the Organization's in-depth study of contributions outstanding and in arrears the governing bodies approved the Director-General's proposal for the establishment of a discount scheme to encourage prompt payment of contributions. The scheme provides for a member nation to earn a discount if the full amount of its assessment, including settlement of any arrears, is paid prior to 31 March of the relevant years. The discount earned would be credited in the year after payment. The rate of discount is to be determined by the Director-General, in consultation with the Finance Committee, and will not exceed the interest earned on Regular Programme funds during that year. The scheme was to be introduced on an experimental basis from 1 January 1992, but the Finance Committee concluded in May 1992 that, since the member nations had not been officially notified, the experiment should be deferred until 1993.

Income and Expenditure Account and the Reserves

139. In 1990-91 the level of contribution receipts from member nations increased and the Organization received some \$22 million of miscellaneous income above the budgeted amount, mainly due to the receipt of a \$15 million special contribution. These factors, together with the transfer of monies from the Working Capital Fund, enabled the FAO to generate a surplus of \$13.3 million, despite unbudgeted costs of \$26.5 million being charged to the General Fund. These unbudgeted costs arose because staff costs were \$21 million higher than the amount provided for when the Programme of Work and Budget was finalised. In addition, because of adverse currency movements in excess of the monies available in the Special Reserve Account, \$5.5 million was also charged to the General Fund.

- (h) The recruitment of systems accountants into the Finance Division to bolster expertise in a vital area.

136. Although it will of course be necessary to consult users and obtain their comments on the systems, with regard to future developments I recommend the FAO continues to make use of expert independent advice. The development of FINSYS/PERSYS was itself affected by the lack of sufficient skilled personnel within the FAO. Although there exists a small core of experienced professionals, it is doubtful if they alone possess the technical skills necessary to specify and implement major system changes unassisted. While I recognise that cost considerations must be taken into account, the Organization's experience with FINSYS/PERSYS and other computer systems developed over recent years demonstrates that the quality of the final product should be the prime consideration. Failure to ensure that computer systems are developed to an acceptable quality is likely to increase costs in the long run.

140. At the end of the biennium the Organization's reserves were almost exhausted. The Working Capital Fund, used in part to finance budgetary expenditures pending receipt of contributions, contained only \$180,956. The total drawings from the Working Capital Fund of \$18 million are required, in accordance with the Financial Regulations, to be reimbursed from the General Fund as soon as feasible during the 1992-93 biennium. The advance of \$18 million was reimbursed to the Working Capital Fund on 14 May 1992.

141. The Special Reserve Account, set up to safeguard the Organization against currency fluctuations, had a zero balance at 31 December 1991. During the biennium there were insufficient funds available to increase the balance of the Account from \$19.7 million to its authorised level of \$28.4 million, equivalent to five per cent of the effective working budget. The drawings during the biennium of \$25.2 million fell below the authorised level, but exceeded the balance available, and a deficit of \$5.5 million was transferred to the General Fund.

Table 8: Financial Position of the FAO 1986-91

	1986-87 \$ million	1988-89 \$ million	1990-91 \$ million
INCOME			
Contributions Received (see Table 7)	326.3	423.5	552.5
Net Miscellaneous Income	36.2	33.5	34.4
	----- 362.5	----- 457.0	----- 586.9
EXPENDITURE			
Expenditure and Obligations	385.4	433.5	536.6
Technical Co-operation Programme Funds			
Carried Forward	27.8	34.1	31.5
	----- 413.2	----- 467.6	----- 568.1
SURPLUS/(DEFICIT) OF INCOME OVER EXPENDITURE	(50.7)	(10.6)	18.8
MOVEMENTS TO/FROM RESERVES			
Special Reserve Account deficit transferred to General Fund	(9.4)	-	(5.5)
Working Capital Fund replenished from General Funds	-	(13.3)	(18.0)
Working Capital Fund transferred to General Fund	13.3	18.0	18.0
SURPLUS/(DEFICIT) AFTER MOVEMENT ON RESERVES	(46.8)	(5.9)	13.3
ACCUMULATED DEFICIT	(46.8)	(52.7)	(39.4)
BALANCE OF RESERVES AT BIENNIUM END			
Special Reserve Account	0	19.6	0
Working Capital Fund	0	0	0

142. Table 8 above illustrates that, although the level of contributions outstanding and in arrears rose between 1986 and 1991, the accumulated deficit on income over expenditure was reduced during the 1990-91 biennium to \$39.4 million. This was achieved by the receipt of some \$30 million in special contributions over the period (\$15 million in both 1988-89 and 1990-91); contributions outstanding at the end of the period stabilising (Table 7); and by the use of monies held in reserve. In order to enhance the information contained in the Financial Statements for future biennia the Organization is considering introducing a Statement showing the changes in Financial Resources, as recommended by the Working Party on Accounting Standards in the United Nations System (see paragraphs 188 to 189). Such a Statement should bring out more clearly the extent of the financial crisis and the significance of funding some of the Organization's operations from reserves, borrowing and the unspent funds carried forward as expenditure in accordance with the Financial Regulations.

143. In addition to the measures designed to encourage prompt payment of contributions, the FAO Conference in 1991 decided to strengthen the Organization's reserves. The Conference approved an increase in the level of the Working Capital Fund to \$25 million and decided to make a special assessment on member nations to provide for replenishment of the Special Reserve Account to a level of \$28 million. I note the steps being taken to maintain adequate reserves to protect the Organization from unforeseen and unbudgeted costs, and trust that they will be restored to acceptable levels as soon as practicable.

Borrowing

144. In my Report on the Regular Programme Financial Statements for 1988-89, I commented on the growth in contribution arrears and the cash flow problems that the FAO believed would inevitably arise in 1990-91 unless the arrears were significantly reduced. Although the Organization received over \$550 million of contribution income in the biennium, the timing of receipts did not comply with the Financial Regulations and did not match the Organization's cash flow requirements. In order to implement the approved Programme of Work and Budget and overcome the acute cash flow problems the Director-General informed me that he felt compelled to authorise the borrowing of funds from both internal and external sources, as provided for by the FAO Conference.

145. In order to advise and assist him in the control of borrowing operations the Director-General established an Advisory Committee. The seven member Committee comprised representatives of the Administration and Finance, and Programme, Budgeting and Evaluation Departments. A representative of Internal Audit attended as an observer and the Committee was chaired by the Assistant Director-General/Administration and Finance. The Committee met 16 times between July 1990 and December 1991 to review the financial position of the Organization and, in the light of their evaluation, made recommendations on borrowing requirements to the Director-General.

146. Several potential internal sources of funds were first identified by the Committee and steps were taken to ensure that only legitimate sources were utilised, including obtaining legal opinions regarding the ownership of funds. Initially, the Organization drew upon funds in the Working Capital Fund and the Special Reserve Account and classified these sums held in reserves as 'borrowing'. However the use of the Working Capital Funds, to meet shortfalls in contribution receipts, is specifically provided for in the Financial Regulations and in my view this internal transfer should not be described as borrowing. The only other source for internal borrowing identified in the biennium was the Terminal Payments Fund, which was established to meet the repatriation costs associated with Trust Funds staff. The FAO estimated that the substantial surplus of assets over liabilities in this Fund meant that initially up to \$12 million, and later up to \$15 million, could safely be borrowed for the Regular Programme. Interest charged on the loan was levied at the rate that the monies would have earned had they been invested and amounted to \$923,080 by 31 December 1991, as disclosed in Note 3 to the Financial Statements.

147. In July 1990 the Advisory Committee foresaw a potential need to borrow externally later in the year and therefore sought borrowing facilities from 18 financial institutions around the world. Responses were evaluated at the end of September 1990 and the first external loan for \$22 million was entered into in October 1990. My staff's review confirms that the Organization took appropriate steps to ensure that the most favourable terms were obtained.

148. The first loan was initially set at 180 days, but was repaid after only 20 days following the receipt of some \$43 million in contributions. External borrowing was not undertaken again until June 1991 and once again a number of options were reviewed before the Committee recommended borrowing action to the Director-General. Due to the uncertainty regarding the precise timing of major contribution receipts, further external loans were in the first instance taken out, or renewed, for a fixed term of 30 days. Towards the end of the biennium the Organization started to borrow more on a week to week basis, rolling over the loans as necessary. The total costs incurred on external borrowing in the biennium amounted to \$721,643, as disclosed in Note 3 to the Financial Statements.

149. The borrowing undertaken in 1990-91 incurred total interest charges of \$1.6 million. The amount of loans outstanding at the end of the relevant months, together with the total interest charges incurred are shown in Table 9.

Table 9: Loans Outstanding and Interest Charges in 1990-91

MONTH	LOANS OUTSTANDING		
	Internal \$ million	External \$ million	Total \$ million
<u>1990</u>			
Prior to September 1990	0	0	0
September	12	0	12
October	12	22	34
November	12	0	12
December	12	0	12
<u>1991</u>			
January	12	0	12
February	12	0	12
March	0	0	0
April	0	0	0
May	0	0	0
June	12	0	12
July	12	15	27
August	12	30	42
September	12	45	57
October	12	20	32
November	12	10	22
December	15	17	32
Accumulated Interest Charges	0.923	0.722	1.645

The total interest charge on borrowings has been offset against miscellaneous income received during the period. Although the FAO Conference Resolution 2/80 provided for this accounting treatment, I believe it would have been preferable, given the unusual nature of this item, for the borrowing costs to have been shown separately on the face of the Income and Expenditure Account rather than by way of an explanatory note on miscellaneous income. The Statement of Assets and Liabilities as at 31 December 1991 includes disclosure of the outstanding loans payable of \$32 million, excluding any further interest payments.

150. In order to establish the need to borrow funds and to decide on the optimum time to take such action, it is necessary to have reliable information concerning the Organization's cash position. Determinations of the level of borrowings were primarily made on the basis of cash flow projections based on projected income and expenditures, which were subject to considerable uncertainty regarding the timing and amount of receipts from member nations. My staff reviewed the cash flow information available to the Advisory Committee on Borrowing and concluded that the widespread problems experienced with the introduction of the new computerised financial and personnel systems, FINSYS/PERSYS (see paragraphs 78 to 115) impacted on the formulation of up to date and timely cash flow information. I am pleased to note that the reliability of cash flow information available from FINSYS/PERSYS had greatly improved by the latter half of 1991 and that the FAO was therefore better placed to control external borrowing operations undertaken from July 1991.

151. In the light of the actual cash flow position prevailing in 1991 it appears that the initial loan of \$12 million in 1990 from the Terminal Payments Fund could have been repaid in January 1991 rather than on 28 March 1991. Repayment in January would have reduced interest charges on the loan by an estimated \$154,000. The FAO acknowledges that the cash position at that time was difficult to establish with certainty and considers that this was due to the uncertainty surrounding the timing and amount of receipts from member nations. The Organization also considers that the interest charges incurred because of the timing of repayment will be offset by interest generated on excess cash balances.

Treasury Operations

152. The FAO Treasury administers funds held on behalf of the World Food Programme (WFP), Trust Funds Donors, and United Nations Development Programme (UNDP) projects, as well as the funds of Regular Programme. Around 180 bank accounts were being used by the FAO Treasury at the end of the 1990-91 biennium, with a further 1000 imprest accounts, primarily controlled in the field. The value of cash handled by the FAO at 31 December 1991 amounted to more than US \$600 million.

153. The funds are held in bank accounts distributed throughout the world as set out in Table 10 below. My audit of these funds is based on a circularisation exercise which seeks independent confirmation from the banks of the balances held by them on behalf of the FAO and a detailed review of the Organization's biennium end reconciliations of bank statements with the books of account.

Table 10: Cash Balances by Type and Source of Funds
at 31 December 1991

Programme	Headquarters				Field		Total	
	Deposit Accounts		Current Accounts		Imprest Accounts			
	No	\$million	No	\$million	No	\$million	No	\$million
Regular Programme	4	6.2	32	23.5	253	7.4	289	37.1
Trust Funds	23	99.8	3	50.9	295	3.4	321	154.1
World Food Programme	39	383.9	17	17.7	-	-	56	401.6
UNDP	-	-	66	10.7	478	3.0	544	13.7
TOTALS	66	489.9	118	102.8	1026	13.8	1210	606.5

154. My audit revealed that certain individual transactions were not revalued at the prevailing United Nations Operational Rate of Exchange at the biennium end, as the accounting policies of the FAO require. My staff were able to confirm that the net impact on the accounts was not significant in this period. However they noted that quite small differences in exchange rate movements could lead to a material mis-statement of the balances held. I consider that the FAO should review its procedures to see whether changes are needed in order to prevent incorrect biennium end cash valuations being made in the future.

155. During my audit I noted that the Organization's operation of some 180 bank accounts and 1,000 imprest accounts presents a sizeable administrative burden. Many of these accounts are rarely used, and there have been instances of banks announcing to the FAO that accounts have been closed on the basis of lack of activity. I recommend that the Organization reviews its requirements for such a number of accounts, closes unused ones, and seeks to combine a number of the separate bank accounts presently run by some Field Offices.

Accounts Payable and Receivable

156. It was clear from my examination that, without the extraordinary efforts the Organization made to correct payable and receivable account balances in the latter months of 1991, it would not have been possible to give the accounts an unqualified audit opinion. Indeed, had this process begun any later, or been pursued with any less vigour, such an outcome would have been in doubt.

157. Much of the clearance work performed has been implemented only by means of bulk journal entries, rather than by correction at the detailed level. There is a risk of error if corrections are not made at the detailed level, because staff may at a future date seek to make further adjustment to individual items already corrected en bloc. The Organization considers that there is sufficient documentation supporting the bulk journal entries to facilitate proper handling of any subsequent adjustments that may be necessary.

158. Nevertheless, the FAO continues to face serious problems in controlling receivables and payables. Although the overall position did not impact on my audit opinion, my staff's examination revealed a relatively high rate of error among general ledger codes for accounts payable and receivable, particularly those relating to field accounts. My staff were concerned to find that comprehensive aged debtor and creditor listings were not available, or were only at a development stage, for many of these accounts. It is essential that such reports are not only available, but that long outstanding and unusual items are identified, investigated and, where necessary, corrected, on a routine basis. Considerable efforts are likely to be required before the end of the 1992-93 biennium if this area is not to impact upon audit certification of those accounts.

159. As I have noted, some \$375 million was cleared from accounts payable and receivable in the closing months of 1991. In the course of this work some aged items included in accounts payable were found to be no longer valid. These items mainly relate to disbursements made several years prior to the introduction of the FINSYS/PERSYS system without the corresponding accounting entry in accounts payable. These have been written back to miscellaneous income, and are disclosed in Note 3 to the Financial Statements. The FAO has also identified around \$0.5 million of overpayments of former staff members, often resulting from back-dated reductions to allowances, which had not been processed at the time of their departure from the Organization. I endorse the Organization's attempts to obtain repayment from the individuals concerned, but note that write-off action for a number of these items is likely to be necessary in the 1992-93 biennium.

160. Whilst account balances for receivables and payables have not reached the dramatic levels reported to the Organization in 1991, my staff note that balances have grown considerably since closure of the 1990-91 biennium. I recommend that the Organization takes early steps to strengthen control of these accounts.

Travel Advances

161. My staff found that weaknesses existed in the reconciliation procedures carried out between the two Headquarters Travel Advance bank accounts and FINSYS/PERSYS records. My staff note that the FAO staff are carrying out alternative procedures which they believe give them sufficient assurance that only valid travel authorisations are being presented to the Organization's bank.

162. The need for a reconciliation of this kind is an innovation that has come with the introduction of the new computerised accounting system. Previously, Travel Advances were recorded only when they were paid. Under FINSYS/PERSYS when an advance for travel is approved, a receivable entry is set up balanced by an off-setting payable entry. One of the problems the FAO faces in controlling these accounts is that staff often draw an amount from the Organization's bank which is lower than that approved, or which is denominated in a different currency. The Organization has informed me that a decision to record travel advances on disbursements has been made and is awaiting implementation. I welcome this development as I believe it will enhance important reconciliation procedures and facilitate improved internal control.

Revaluation of Assets and Liabilities

163. The Accounting Policies of the FAO state that assets and liabilities in currencies other than United States dollars are restated at the biennium end, in line with the prevailing United Nations Operational Rate of Exchange. In practice, the new computerised financial system only achieved this for cash assets at the end of 1991, although in the section of my Report dealing with Treasury Operations (paragraphs 152 to 155) I discuss some errors found in this area. Most of the assets and liabilities of the FAO are denominated in United States dollars and in my view, the impact of the failure to revalue other assets and liabilities was not material at 31 December 1991.

Currency Protection

164. During the 1990-91 biennium, the strategy of the FAO with regard to protection against adverse currency movements was under review. Although some protection was afforded by forward-buying Italian Lire at pre-determined exchange rates, this was not done for the whole biennium.

165. The FAO Conference in November 1991 requested the Finance Committee to make a further study of alternative mechanisms to protect the Organization from adverse exchange rate fluctuations. The Organization considered a number of mechanisms for protecting the Programme of Work and Budget and presented a paper to the Finance Committee in May 1992. The Committee shared the Director-General's view that a solvent Special Reserve Account, supplemented by forward purchasing of currencies at predetermined

rates, provided the best solution for the FAO. This approach has been adopted for the 1992-93 biennium.

166. The Organization entered into forward purchasing contracts with three separate banks to purchase \$15 million of Italian lire for each month of the 1992-93 biennium. These contracts provide for the purchase of lira at a rate which exceeds the exchange rate underpinning the 1992-93 Programme of Work and Budget, and which therefore should protect the Organization's budget from adverse movements in the value of the United States dollar against the Italian lire.

Trust Funds

167. Under the terms of Financial Regulation 6.7 the Director-General may establish Trust Funds to cover voluntary contributions made available to the FAO for special purposes, provided these are consistent with the policies, aims and activities of the Organization. The purpose and limits of the Funds must be clearly defined and administered, in accordance with the appropriate provisions of the Financial Regulations, unless otherwise provided for by the FAO Conference.

168. Schedule 3.3 to the FAO Regular Programme Financial Statements provides a summary by donor of Trust Fund transactions, and supplements the separately audited Trust Funds Statement which details the income and expenditure for over 1400 projects. Total receipts in the 1990-91 biennium amounted to \$388.1 million, compared with \$387.5 million in the previous biennium. Expenditure totalled \$423.6 million and the balance of donors' unexpended funds was \$108.3 million at 31 December 1991.

169. The cost of administration is charged to the Trust Funds by a percentage levy on the expenditure incurred on each project, referred to as support costs. The level of support costs are agreed with the donors and are at varying rates up to 14 per cent. Under these arrangements \$37.2 million was charged to the Trust Funds in the 1990-91 biennium.

Interest on Fund Balances

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

171. In the past, the FAO did not maintain separate bank accounts for cash provided by Trust Funds donors and a computerised interest calculation process apportioned interest income due to Trust Fund projects and the Regular Programme. The practice followed in recent biennia has been to credit interest to project balances twice a year, using the average interest rate earned by the Organization in that period. Interest was paid on only four-fifths of the balance of each Trust Fund in credit in order to compensate for the need to keep a share of Trust Funds cash uninvested to cover immediate expenditures.

172. The FAO Finance Committee last considered these procedures in 1988, in the light of the Organization's decision to establish separate bank and investments accounts for Regular Programme and Trust Funds cash. The Finance Committee noted that this would make it possible to establish a more satisfactory method for determining the share of interest earnings due to Trust Funds. The Committee also noted that further refinements would become possible with the implementation of the FINSYS/PERSYS system.

173. During the 1990-91 biennium, due to difficulties on the implementation of the new computerised accounting system, the Organization credited interest to Trust Fund projects under the established methodology, including the discount of about one-fifth. As a result at the end of the financial period a balance of some \$4.0 million was retained by the Organization. The Organization informed me that the operation of separate bank accounts, together with the planned implementation of a new computerised interest calculation process, will enable it to determine the amount of interest due to Trust Funds donors. Under the new procedures to be introduced during the 1992-93 biennium, some interest would continue to be transferred to the Regular Programme to take account of joint activities funded by the Organization's Regular Budget and other agencies.

Reporting to Donors

174. During the 1990-91 biennium, the FAO was unable to provide donors with an interim Statement of Trust Funds, covering the first year of the biennium. These statements became available only in 1992, more than a year late. The deterioration in financial reporting during 1990, in particular following the implementation of the new computerised accounting system, was a source of concern to many donors, and my staff performed extra work on the audit of the Statement of Trust Funds, to assure themselves that these weaknesses in reporting were not symptomatic of fundamental problems which would affect the final Statement. I attach considerable importance to the maintenance of a regular and reliable system of financial reporting to Trust Fund donors and welcome the steps the Organization is taking to rectify the problems and reinstate regular and timely reporting to donors.

175. It is my staff's practice, in co-operation with the Organization, to invite donors to inform them of items reflected in these Interim Statements and other financial reports on Trust Fund projects which do not accord with their own records. During my audit of the 1990-91 biennium Statement, again with the co-operation of the FAO, a representative group of donors were invited to confirm details of receipts recorded in the Organization's books of account for the final year of the biennium. A number of enquiries have been made by donors as a result of this exercise, all of which were satisfactorily resolved.

176. The Organization has informed my staff that, in addition to the existing and separately audited Statement listing the income and expenditure of individual Trust Fund projects, they propose to introduce a summary Statement with effect from the 1992-93 biennium. This will involve the presentation of a summary Income and Expenditure Account and a Statement of Assets and Liabilities, which will show the overall financial position for Trust Fund activities as a whole. I would welcome this development.

Introduction of Unliquidated Obligations

177. Before this biennium, expenditure for most Trust Funds was recorded on a cash basis. Only those Trust Funds operated for other United Nations donors included unliquidated obligations, which is the term used to describe 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. During this biennium unliquidated obligations have for the first time been charged to the expenditure of all Trust Fund projects. This change in accounting policy, as explained in Note 9 to the Financial Statements, has increased Trust Fund expenditure by some \$20 million, and has had a consequent effect on the amount of project support costs levied on Trust Funds. The Organization informed my staff that donors were consulted about this change in accounting policy.

The FAO Staff Commissary Fund

178. The FAO Staff Commissary Fund was established in 1951 to facilitate duty free importation, by international staff, of "... pharmaceutical products, certain household goods and other articles to which they are accustomed". This privilege was granted to the Organization's international staff by the original Headquarters Agreement between the FAO and the Italian Government. Over the years the range of services and goods sold, together with the number of staff entitled to use the Commissary, have grown considerably and the Commissary Fund now represents a sizeable operation. The Commissary employs some 40 staff, has an annual financial turnover of \$9.6 million (Italian lire 13.1 billion), with assets of \$1.8 million (Italian lire 2.3 billion), as disclosed in its most recent audited accounts.

179. Although the Commissary is part of the FAO, it is a self-financing unit, and prepares its own annual accounts on an accruals basis. These Accounts are audited by my staff, and receive a separate audit opinion. The 1988 and 1989 accounts were presented for audit in August 1991. The very late presentation of these Accounts was partly due to the consideration being given by the Administration and Finance Department at the time to the possibility of preparing a biennial Account. I favoured, together with Internal Audit, the retention of annual Accounts for this quasi-commercial operation and this was accepted by the new Assistant Director-General/Administration and Finance. The audited accounts for both 1988 and 1989 were presented to the September 1991 Finance Committee.

180. A further reason for the delay was the need for negotiations between the Organization and my staff concerning the Commissary Fund's retention of an unappropriated surplus to meet the operational needs of the Commissary. This led to an adjustment being made to the final 1988 and 1989 Accounts, making it clear that this unusual action was being taken pending consideration of the position by the Finance Committee and other governing bodies.

181. The rules and regulations governing the distribution of funds to Commissary reserves and the transfer of any net profits to the Staff Welfare Fund, together with the reimbursement of personnel, indirect services and facilities made available by the FAO to the Staff Commissary, are traditionally laid down in resolutions of the FAO Conference and rulings of the Finance Committee. In view of the nature of the Commissary's activities and the fact that the FAO Conference convenes only every two years, I recommend consideration is given to granting the senior management of the FAO, in consultation with the Finance Committee, greater discretion over such decisions in future. In particular, it would be helpful for them to be able to make decisions concerning the level of profits to be retained by the Commissary in order to maintain its capital position. Accountability for the decisions made should be preserved by continuing to present the accounts to governing bodies, without delaying their presentation for audit.

182. The Commissary Accounts for 1990 were first presented for external audit on 24 July 1992. An earlier draft Account had been reviewed by Internal Audit who made a number of suggestions for improving the format. I regard this further delay in the presentation of Accounts for external audit with considerable concern as it undermines their value to users. As a general rule I consider that all Accounts should be presented for external audit in good time for my examination to be completed within nine months of the end of the period to which the accounts relate.

183. In this respect, the Commissary compares poorly with the FAO Credit Union, another self-financing unit which provides credit and savings opportunities for the staff of the Organization, and which is also subject to a separate external audit by my staff. The FAO Credit Union Accounts have been consistently presented for audit within a few weeks of the year end, and for the 1990 and 1991 accounts my staff were able to complete their examination in time for the Credit Union Annual General Meeting each April. The Organization considers that the Commissary Fund Accounts are more complicated to prepare, for example due to the need to value over 1500 regular stock items and 800 seasonal items. Whilst I note that the Organization has decided that the presentation of the 1991 Accounts must await consideration of the 1990 ones by the Finance Committee, I welcome the Organization's assurances that in future the Commissary Fund accounts will be presented for external audit on a more timely basis.

Inventory

184. A central computerised inventory record of non-expendable equipment, furniture and vehicles is maintained by the FAO at its Headquarters. Inventory items are recorded at cost price and charged as expenditure when purchased. The value of inventory held at the end of the biennium is disclosed in Note 8 to the Regular Programme Financial Statements and is included in the Statement of Assets and Liabilities at a nominal value of \$1. At 31 December 1991, the gross value of inventory at cost price was \$123,053,995 of which \$41,234,483 related to the Regular Programme and \$81,819,512 to Trust Funds.

185. On termination of a Trust Fund project, title to the inventory is usually transferred to the assisted government to provide continued support for the project or programme concerned. Inventory items so transferred are deleted from the Organization's central records upon receipt of confirmation from governments that the transfer has occurred. The Trust Funds inventory valuation at 31 December 1991 of \$81.9 million includes approximately \$3 million relating to items that were classified in 1989 as "transferred to governments" and were therefore excluded from the inventory valuation of \$68 million reported in the 1988-89 Financial Statements. This adjustment to the 1990-91 inventory records was made because confirmation concerning the inventory transfers had not been received.

186. My examination has confirmed that all the inventory transfers in question relate to projects closed prior to 1980 and, according to the Organization's records, have been physically handed over to governments. In my opinion, since the items are not in use by the Organization, and have not been for some considerable time, it would have been prudent to follow the practice adopted in 1989 and exclude these items from the inventory valuation for 1990-91. The Organization has told me that they intend to complete a detailed review of all items believed transferred to governments, and to remove all invalid entries in the inventory records by the end of 1992. I recommend that the Organization also takes this opportunity to review its procedures for ensuring that effective follow-up action is taken by Field Offices in cases where confirmation of transfers is delayed.

OTHER MATTERS

Losses etc

187. I have examined details of losses, ex-gratia payments, and writes-off to the value of \$867,461 submitted to me by the Director-General in accordance with the Financial Regulations and am satisfied with the information and explanations provided. I have no observations to make on them. No cases of fraud or presumptive fraud have been reported to me.

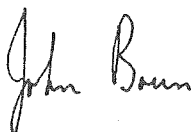
Common Accounting Standards

188. At its seventy-fifth session in September 1991, the Consultative Committee on Administrative Questions [Financial and Budgetary Questions] (CCAQ [FB]) agreed that the development of common accounting standards for the United Nations system should be actively pursued, and that this could best be done on a cooperative basis by the organizations themselves. The Committee also agreed that the formulation of common accounting standards for the United Nations system would take account of those of the International Accounting Standards Committee, and those promulgated by other recognised authorities to the extent that such standards were relevant and dealt with matters of importance to the organizations of the United Nations system.

189. As a result of this decision, CCAQ [FB] established a working party on Accounting Standards which held its first meeting in Geneva. A second meeting was held at the FAO Headquarters, Rome, in May 1992. The purpose of this working party is to draw up appropriate proposals on common accounting standards for consideration by CCAQ [FB]. I am pleased to note that the FAO is actively participating with other United Nations agencies and bodies in this working party.

Acknowledgement

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



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

8 September 1992

EXTERNAL AUDIT VISITS TO FIELD OFFICES OF THE FAO

FAO Regional Offices

Africa (Accra, Ghana)
Asia and the Pacific (Bangkok, Thailand)

FAO Representative Offices

Egypt (Cairo)
Ethiopia (Addis Ababa)
India (New Delhi)
Kenya (Nairobi)
Nicaragua (Managua)
Nigeria (Lagos)
Peru (Lima)
Philippines (Manila)
Tanzania (Dar Es Salaam)

Explanatory Note

By making use of my wider international base I used my staff on various other overseas assignments for the United Kingdom National Audit Office to make short, and cost effective, visits to 11 of the FAO Field Offices.

These financial audits were of 1 to 3 days duration and comprised a selected review of payments and receipts processed through the local imprest accounts, together with a check of local inventory. From this work my staff obtained valuable additional assurance in support of the examination of the FAO Regular Programme Financial Statements. The results of these audits were generally satisfactory and the findings have been notified to the Secretariat, as appropriate.

The audits were specifically targeted at selected areas and did not involve a detailed review of all aspects of internal control or an examination of any field projects. The results therefore should not be regarded as a comprehensive statement on the operation of the FAO Field Offices.

GLOSSARY OF TECHNICAL TERMS

Back-up: A facility intended to provide a service in the event that the primary service has failed.

Computer Application: A use to which the computer system is put, for example the calculation of payroll, or the production of Financial Statements

Computer Program: A set of instructions which direct a computer in the performance of a specific task, or a specific set of tasks.

Computer Programmer: One employed/engaged to write computer programs.

Database: A file of data so structured that many computer programs and users may share and update it, without being constrained by its structure.

Hardware: The physical components of a computer system, for example, its electronic circuitry and mechanical devices.

Input: Data entered into the computer system.

Mainframe Computer: A large-scale computer.

Off-the-Shelf Package: A computer program, or set of programs available for purchase and use often without further amendment, or alternatively with limited tailoring to meet the specific needs of an organization.

On-line Processing: Users perform work directly through terminals, rather than indirectly (e.g. through computer input forms).

Real-Time Processing: Data held on the system (the database) is amended immediately users perform an update action (which is performed 'on-line').

Record: An item of data stored on a computer system.

Software: Software may be variously defined. It is used here to refer to the computer programs (sets of instructions) which control the storage, amendment and processing of data held within the computer system.

Systems Analysis: The investigation of the business information needs of an organization.

System Design: The codification and application of the results of System Analysis.

Terminals: A terminal consists of a computer keyboard, and an output device, usually a visual display unit, but sometimes a printer. The visual display unit (VDU) can display information held within the computer system. The computer keyboard can be used to communicate the users requests (for Enquiry, Entry, or Amendment of Data) to the system.

Users: A user has direct access to the computer system, which may take the form of a facility to enter new data, amend existing data, to enquire about existing data, to request generation of a report, or to initiate computer performed processors. The term does not usually extend to cover third-party users of information produced by the computer system.

REGULAR PROGRAMME FINANCIAL STATEMENTS 1990-91

OPINION OF THE EXTERNAL AUDITOR

To: The Conference of the Food and Agriculture Organization

I have examined the following appended Financial Statements numbered I to III, relevant schedules and Notes of the Regular Programme of the Food and Agriculture Organization for the financial period ended 31 December 1991, in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

As a result of my examination I am of the opinion that the Financial Statements present fairly the financial position at 31 December 1991 and the results of the operations for the period then ended; that they were prepared in accordance with the stated accounting policies; and that the transactions were in accordance with the Financial Regulations and legislative authority.

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



Sir JOHN BOURN
Comptroller and Auditor General
United Kingdom
External Auditor

31 July 1992

FINANCIAL STATEMENTS OF THE FOOD AND AGRICULTURE ORGANIZATION
OF THE UNITED NATIONS
FOR THE FINANCIAL PERIOD 1990-91 ENDED 31 DECEMBER 1991

REGULAR PROGRAMME
(Consolidating Trust Funds and Support Costs)
Statements I to III, Relevant Schedules and Notes

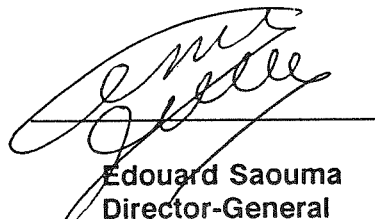
CERTIFICATION OF FINANCIAL STATEMENTS

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

Approved:



Frederic A. Heim
Director
Financial Services Division



Edouard Saouma
Director-General

15 May 1992

REGULAR PROGRAMME

Financial Statements
for the Financial Period 1990-91

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- Schedule 3.6 - Transactions on the Working Capital Fund
- Annex 1.1 - Status of Projects Funded under the Technical Cooperation Programme against 1990-91 Appropriations
- Annex 1.2 - Status of Projects Funded under the Technical Cooperation Programme against 1988-89 Appropriations
- Notes to the Financial Statements

REGULAR PROGRAMME

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regular Programme includes the accounts of Trust Funds and Other Funds.

1. Accounting Period

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

2. Accounting Convention

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

3. Investments

Investments are stated at cost value plus accrued income.

4. Translation policy

The financial statements are expressed in U.S. dollars. Assets and liabilities in currencies other than U.S. dollars have been translated at the U.N. operational rate of exchange in effect at 31 December 1991 which approximates to the market rate.

Income and expenditure items, except for staff costs, in currencies other than U.S. dollars have been recorded 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 or US dollars as a result of differences between market rates and the U.N. exchange rate;
- (ii) When revaluing non-dollar currency holdings upon changes in the U.N. exchange rate.

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

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

5. Recognition of Income and Expenditure

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

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

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

6. Staff Costs

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

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

7. Assets and Liabilities

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

REGULAR PROGRAMME
 TWENTY-NINTH FINANCIAL PERIOD 1990-91
 BUDGET APPROPRIATIONS, TRANSFERS AND EXPENDITURE
 FOR THE PERIOD ENDED 31 DECEMBER 1991 (note 1)

Chapter	Title	Budget Appropriations 1990-1991				Expenditure including Outstanding Obligations at 31 December 1991	Balance of Appropriations Carried Forward to 1992-93	Unspent Balance of Appropriations at 31 December 1991
		As Voted in Conference Resolution 8/89	Transferred To Tax Equalization Fund	Other Budgetary Transfers (net)	Budget as Amended			
		\$	\$	\$	\$	\$	\$	\$
1	General Policy and Direction	40,605,000	0	55,000	40,660,000	40,659,638		362
2	Technical and Economic Programmes	273,869,000	0	(6,000,000)	267,869,000	267,432,141		436,859
3	Development Support Programmes	88,469,000	0	470,000	88,939,000	88,936,760		2,240
4	Technical Cooperation Programme (note 4)	67,767,000	0	0	67,767,000	36,255,443	31,511,557	0
5	Support Services	79,654,000	0	5,575,000	85,229,000	85,225,491		3,509
6	Common Services	17,836,000	0	500,000	18,336,000	18,095,500		240,500
7	Contingencies	600,000	0	(600,000)	0	0		0
Total Effective Working Budget		568,800,000	0	0	568,800,000	536,604,973	31,511,557	683,470
8	Transfer to Tax Equalization Fund	69,200,000	(69,200,000)	0	0	0	0	0
		638,000,000	(69,200,000)	0	568,800,000	536,604,973	31,511,557	683,470
		=====	=====	=====	=====	=====	=====	=====

BUDGET APPROPRIATIONS, EXPENDITURE AND OBLIGATIONS BY PROGRAMME
FOR THE FINANCIAL PERIOD 1990-91 (note 1)

Chapter	Title	Budget Appropriations 1990-91 as Amended	Expenditure including Outstanding Obligations at 31 December 1991	Balance at 31 December 1991
		(\$000)	(\$000)	(\$000)
1. GENERAL POLICY AND DIRECTION				
	Governing Bodies	15,427	15,377	50
	Policy Direction and Planning	11,876	11,385	491
	Legal	4,464	4,492	(28)
	Liaison	8,893	9,406	(513)
	TOTAL Chapter 1	40,660	40,660	0
2. TECHNICAL AND ECONOMIC PROGRAMMES				
	<u>Agriculture</u>			
	Natural Resources	18,992	18,924	68
	Crops	31,335	31,222	113
	Livestock	17,708	17,657	51
	Research	18,217	18,317	(100)
	Rural Development	31,150	31,146	4
	Nutrition	17,633	17,747	(114)
	Information and analysis	30,827	30,737	90
	Policy	31,062	30,726	336
	Programme Management	10,286	10,427	(141)
		207,210	206,903	307
	<u>Fisheries</u>			
	Information	5,937	6,321	(384)
	Exploitation and Utilization	16,384	16,136	248
	Policy	7,546	7,375	171
	Programme Management	5,532	5,338	194
		35,399	35,170	229
	<u>Forestry</u>			
	Resources and Environment	6,720	7,467	(747)
	Industries and Trade	4,245	3,657	588
	Investment and Institutions	8,529	8,234	295
	Programme Management	5,766	6,002	(236)
		25,260	25,360	(100)
	TOTAL Chapter 2	267,869	267,433	436

Schedule 1.1
(Concluded)

Chapter	Title	Budget Appropriations 1990-91 as Amended	Expenditure including Outstanding Obligations at 31 December 1991	Balance at 31 December 1991
		(\$000)	(\$000)	(\$000)
3.	DEVELOPMENT SUPPORT PROGRAMMES			
	Field Programme Planning & Liason	6,783	6,762	21
	Investment	23,640	22,059	1,581
	Special Programmes:			
	FFHC/Action for Development	1,489	1,362	127
	Fellowships (Andre Mayer)	433	414	19
	FAO Representatives	55,644	57,189	(1,545)
	Programme Management	950	1,151	(201)
	TOTAL Chapter 3	88,939	88,937	2
4.	TECHNICAL COOPERATION PROGRAMME (note 4)	67,767	36,255	31,512
5.	SUPPORT SERVICES			
	<u>Information and Documentation</u>			
	Public Information	11,026	10,840	186
	Library	6,551	6,287	264
	Publications	4,545	4,432	113
		22,122	21,559	563
	<u>Administration</u>	60,080	60,642	(562)
	<u>Programme Management</u>	3,027	3,024	3
	TOTAL Chapter 5	85,229	85,225	4
6.	COMMON SERVICES	18,336	18,095	241
7.	CONTINGENCIES	0	0	0
	GRAND TOTAL	568,800	536,605	32,195

Summary

	(\$000)
Balance of appropriations (Statement I)	683
Unobligated funds of Technical Cooperation Programme carried forward for use in 1992-93	31,512
	32,195

REGULAR PROGRAMME
TWENTY-NINTH FINANCIAL PERIOD 1990-91
INCOME AND EXPENDITURE OF THE GENERAL FUND
FOR THE PERIOD ENDED 31 DECEMBER 1991

INCOME

Notes

\$

\$

Member Nations' Contributions received (Schedule 3.1.1)

552,531,840

Less: Transfer to Working Capital Fund at 28 March 1991

2

(17,977,238)

534,554,602

Miscellaneous Income:

Net interest on Bank Accounts & Deposits
Lapse of Prior Years' Unliquidated Obligations
Rent of Conference and Office Facilities
Special Contribution for T.C.P.
Other Sundry Income

5,309,410
6,878,110
5,026,488
15,000,000
2,201,587

3

34,415,595

Transfer from Working Capital Fund at 18 June 1991

2

18,000,000

586,970,197

EXPENDITURE

\$

Expenditure (Statement I)

536,604,973

T.C.P. 1990-91 Unobligated Funds carried forward for use in 1992-93
(Statement I)

4

31,511,557

Deficit on the Special Reserve Account

5

5,546,409

Excess of Income over Expenditure (Statement III)

13,307,258

586,970,197

STATEMENT III

REGULAR PROGRAMME
TWENTY-NINTH FINANCIAL PERIOD 1990-91
STATEMENT OF ASSETS AND LIABILITIES AT 31 DECEMBER 1991

<u>ASSETS</u>		<u>Notes</u>	\$	\$
<u>LIQUID ASSETS</u>				
Cash, Bank Deposits & Current Accounts				
Regular Programme			37,113,551	
Trust Funds			154,099,943	
				191,213,494
<u>ACCOUNTS RECEIVABLE</u>				
Outstanding Contributions of Member Countries:				
Contributions unpaid and due (Schedule 3.1.1)			155,095,055	
Contributions payable by instalments				
in settlement of arrears (Schedule 3.1.1)			210,072	
			155,305,127	
Amounts due to Special Reserve Account	5		3,271,333	
Amounts due as advances to Working Capital Fund	2		1,819,044	
				160,395,504
Interfund Accounts			13,001,277	
Accrued Interest			4,809,033	
Other Accounts Receivable	6		27,626,930	
				45,437,240
<u>INVESTMENTS</u>				
Investments at cost				
Compensation Plan Reserve Fund	7		25,703,946	
Separation Payments Scheme Fund	7		60,548,282	
				86,252,228
<u>CAPITAL ASSETS</u>				
Written-down value of FAO owned equipment, furniture and vehicles	8			1
				483,298,467
<u>LIABILITIES</u>				
			\$	\$
Accounts Payable	6			29,115,414
Outstanding Obligations	9			56,628,645
Unobligated Funds of 1990-91 Appropriation of the				
Technical Cooperation Programme reserved for use in 1992-93	4			31,511,557
Loans Payable	10			32,000,000
Trust Funds Project Balances (Schedule 3.3)				108,322,417
Support Costs Accounts (Schedule 3.4)				4,637,905
Other Reserves Funds (Schedule 3.4)				99,905,931
Special Reserve Account	5			0
Working Capital Fund	2			180,956
Reserved Surplus, equalling total of uncollected contributions				
from Member Nations, amounts due as advances to the Working				
Capital Fund, amounts due to the Special Reserve Account and				
written-down value of FAO owned equipment, furniture and vehicles				160,395,505
Excess of Income over Expenditure for current financial period			13,307,258	
Accumulated Excess of Expenditure over Income at 31 December 1989			(52,707,121)	
Accumulated Excess of Expenditure over Income at 31 December 1991				(39,399,863)
				483,298,467
				=====

CONTRIBUTIONS OF MEMBER NATIONS
SUMMARY OF CONTRIBUTIONS RECEIVED AND OUTSTANDING
FOR THE FINANCIAL PERIOD 1990-91

	Contributions Unpaid and due a/	Contributions in arrears payable by instalments b/	Total
	\$	\$	\$
Balance outstanding at 1 January 1990	150,782,092	254,875	151,036,967
Amount assessed for 1990-91 (after Tax Equalization Fund adjustment)	557,500,000	-	557,500,000 c/
	708,282,092	254,875	708,536,967
Contributions received in 1990-91	553,187,037	44,803	553,231,840 d/
Balance outstanding at 31 December 1991	155,095,055	210,072	155,305,127
	=====	=====	=====

a/ Details by country and year of assessment are shown in Schedule 3.1.2

b/ Details by country and due date of instalments are shown in Schedule 3.1.3

	\$
c/ Gross amount assessed in 1990-91	626,000,000
Staff Assessment	(69,200,000)
Additional assessment to meet the cost of tax refunds to staff members of a Member Nation	700,000
	557,500,000
	=====

d/ Contributions received in 1990-91 were credited to:

	\$
Income from contributions (Statement II)	552,531,840
Tax Equalization Fund (Schedule 3.4 footnote e/)	700,000
	553,231,840
	=====

CONTRIBUTIONS OF MEMBER NATIONS
CONTRIBUTIONS UNPAID AND DUE AT 31 DECEMBER 1991
(EXCLUDING CONTRIBUTIONS PAYABLE BY INSTALMENTS IN SETTLEMENT OF ARREARS)

<u>Member Nation</u>	<u>1988 and Prior</u> \$	<u>1989</u> \$	<u>1990</u> \$	<u>1991</u> \$	<u>Total Outstanding</u> <u>31 December 1991</u> \$
Algeria	-	-	-	501 120	501 120
Antigua and Barbuda	24 032	24 032	27 840	27 840	103 744
Argentina	-	1 552 076	2 199 360	2 199 360	5 950 796
Bahamas	-	-	-	47 034	47 034
Belize	-	-	-	27 840	27 840
Benin	-	-	27 840	27 840	55 680
Bolivia	-	-	27 840	27 840	55 680
Brazil	-	-	4 816 320	4 816 320	9 632 640
Bulgaria	-	-	-	501 120	501 120
Burkina Faso	-	2 446	27 840	27 840	58 126
Burundi	5 740	24 032	22 098	21 685	73 555
Cambodia	134 852	24 032	27 840	27 840	214 564
Central African Republic	-	-	-	23 299	23 299
Chad	-	-	23 460	27 840	51 300
Chile	-	-	-	93 400	93 400
Comoros	-	-	9 063	27 840	36 903
Congo	-	-	27 840	27 840	55 680
Cook Islands	-	-	27 840	27 840	55 680
Costa Rica	-	-	2 908	55 680	58 588
Côte d'Ivoire	-	8 063	55 680	55 680	119 423
Cuba	-	-	141 243	306 240	447 483
Democratic People's Republic of Korea	-	-	-	210	210
Djibouti	-	24 032	-	-	24 032
Dominican Republic	254 528	96 128	111 360	111 360	573 376
Ecuador	-	-	49 666	90 734	140 400
El Salvador	-	-	-	27 840	27 840
Equatorial Guinea	75 266	24 032	27 840	27 840	154 978
Fiji	-	-	-	27 840	27 840
Gabon	5 272	96 128	111 360	111 360	324 120
Gambia	-	23 759	27 840	27 840	79 439
Greece	-	-	11 330	-	11 330
Grenada	13 686	9 858	27 840	13 920	65 304
Guatemala	35 211	12 898	55 680	55 680	159 469

Schedule 3.1.2
(Continued)

<u>Member Nation</u>	<u>1988 and Prior</u> \$	<u>1989</u> \$	<u>1990</u> \$	<u>1991</u> \$	<u>Total Outstanding</u> <u>31 December 1991</u> \$
Guinea	-	-	25 651	27 840	53 491
Guyana	-	-	27 840	27 840	55 680
Haiti	-	24 031	27 840	27 840	79 711
India	-	-	-	1 224 960	1 224 960
Iran	-	-	-	1 976 000	1 976 000
Iraq	-	-	389 760	389 760	779 520
Israel	-	-	-	206 429	206 429
Jamaica	-	-	27 840	27 840	55 680
Jordan	-	17 500	-	15 807	33 307
Kenya	-	-	17 202	18 008	35 210
Kuwait	-	-	-	974 400	974 400
Liberia	11 546	24 032	27 840	27 840	91 258
Libya	-	-	819 740	918 720	1 738 460
Madagascar	-	-	13 920	27 840	41 760
Mali	-	-	12 407	27 840	40 247
Mauritania	-	-	-	27 417	27 417
Mauritius	-	-	-	27 840	27 840
Mongolia	-	-	-	27 840	27 840
Nicaragua	-	-	27 840	27 840	55 680
Niger	-	-	27 840	27 840	55 680
Nigeria	-	-	901	668 160	669 061
Pakistan	-	-	-	134 092	134 092
Panama	-	26 612	55 680	55 680	137 972
Papua New Guinea	-	-	8 549	27 840	36 389
Paraguay	-	14 245	111 360	56 453	182 053
Peru	18 033	192 256	194 880	194 880	600 049
Philippines	-	-	178 105	193 225	371 330
Poland	-	-	-	265 280	265 280
Qatar	-	-	-	167 040	167 040
Romania	323 681	552 736	-	640 320	1 516 737
Rwanda	-	-	-	27 840	27 840
Saint Christopher and Nevis	-	-	-	15 980	15 980
Saint Lucia	-	-	-	643	643
Saint Vincent and the Grenadines	-	-	-	13 920	13 920
Sao Tomé and Príncipe	25 198	24 032	27 840	27 840	104 910
Saudi Arabia, Kingdom of	-	-	-	81 067	81 067

Schedule 3.1.2
(Concluded)

<u>Member Nation</u>	<u>1988 and Prior</u> \$	<u>1989</u> \$	<u>1990</u> \$	<u>1991</u> \$	<u>Total Outstanding</u> <u>31 December 1991</u> \$
Senegal	-	-	17 591	27 840	45 431
Seychelles	-	-	19 162	27 840	47 002
Sierra Leone	-	23 974	27 840	27 840	79 654
Somalia	24 032	24 032	27 840	27 840	103 744
Sudan	-	-	27 840	27 840	55 680
Suriname	35 666	24 032	27 840	27 840	115 378
Syria	59 081	120 160	-	139 200	318 441
Togo	-	-	-	23 222	23 222
Tonga	-	-	-	4 685	4 685
Trinidad and Tobago	-	-	48 520	46 564	95 084
Turkey	-	866 244	1 057 920	1 057 920	2 982 084
Uganda	20 314	24 032	27 840	27 840	100 026
United States of America	63 442 879	38 885 000	13 716 000	253 000	116 296 879
Uruguay	-	-	-	139 200	139 200
Yemen	-	23 532	27 840	27 880	79 252
Yugoslavia	-	-	1 300 000	1 531 200	2 831 200
Zaire	9 802	-	27 840	27 840	65 482
Zimbabwe	-	-	-	55 680	55 680
	<u>\$ 64 518 819</u> =====	<u>42 787 966</u> =====	<u>26 265 036</u> =====	<u>21 523 234</u> =====	<u>155 095 055</u> =====

Schedule 3.1.3

CONTRIBUTIONS OF MEMBER NATIONS
CONTRIBUTIONS PAYABLE BY INSTALMENTS IN SETTLEMENT OF ARREARS
AT 31 DECEMBER 1991

<u>Member Nation</u>	<u>Conference Resolution</u>	<u>Due 1989 and Prior</u> \$	<u>Due 1990</u> \$	<u>Due 1991</u> \$	<u>Due in Future Years</u> \$	<u>Total Due</u> \$
Antigua and Barbuda	14/87	6,151	6,151	6,151	30,752	49,205
Chad	18/85	-	10,248	10,249	30,745	51,242
Comoros	13/83	-	-	7,008	7,008	14,016
Guyana	15/87	-	6,603	6,610	39,660	52,873
Paraguay	19/85	-	<u>7,123</u>	<u>7,123</u>	<u>28,490</u>	<u>42,736</u>
		<u>6,151</u>	<u>30,125</u>	<u>37,141</u>	<u>136,655</u>	<u>210,072</u>

TRANSACTIONS ON THE TECHNICAL COOPERATION PROGRAMME
1988-89 BUDGET APPROPRIATIONS
FOR THE FINANCIAL PERIOD 1990-91

<u>INCOME</u>	\$	<u>EXPENDITURE</u>	\$
Balance of unobligated funds brought forward at 1 January 1990 in accordance with Financial Regulation 4.3	34,119,345	Expenditure including outstanding obligations incurred in 1990-91	34,119,196
		Transferred to Miscellaneous Income	149
	----- 34,119,345 =====		----- 34,119,345 =====

REGULAR PROGRAMME
TWENTY-NINTH FINANCIAL PERIOD 1990-91
STATEMENT OF ASSETS AND LIABILITIES AT 31 DECEMBER 1991

<u>ASSETS</u>		<u>Notes</u>	\$	\$
<u>LIQUID ASSETS</u>				
Cash, Bank Deposits & Current Accounts			37,113,551	
Regular Programme			154,099,943	
Trust Funds			-----	191,213,494
<u>ACCOUNTS RECEIVABLE</u>				
Outstanding Contributions of Member Countries:				
Contributions unpaid and due (Schedule 3.1.1)			155,095,055	
Contributions payable by instalments			210,072	
in settlement of arrears (Schedule 3.1.1)			-----	
			155,305,127	
Amounts due to Special Reserve Account	5		3,271,333	
Amounts due as advances to Working Capital Fund	2		1,819,044	
			-----	160,395,504
Interfund Accounts			13,001,277	
Accrued Interest			4,809,033	
Other Accounts Receivable	6		27,626,930	
			-----	45,437,240
<u>INVESTMENTS</u>				
Investments at cost				
Compensation Plan Reserve Fund	7		25,703,946	
Separation Payments Scheme Fund	7		60,548,282	
			-----	86,252,228
<u>CAPITAL ASSETS</u>				
Written-down value of FAO owned equipment, furniture and vehicles	8			1

				483,298,467
				=====
<u>LIABILITIES</u>			\$	\$
Accounts Payable	6			29,115,414
Outstanding Obligations	9			56,628,645
Unobligated Funds of 1990-91 Appropriation of the				
Technical Cooperation Programme reserved for use in 1992-93	4			31,511,557
Loans Payable	10			32,000,000
Trust Funds Project Balances (Schedule 3.3)				108,322,417
Support Costs Accounts (Schedule 3.4)				4,637,905
Other Reserves Funds (Schedule 3.4)				99,905,931
Special Reserve Account	5			0
Working Capital Fund	2			180,956
Reserved Surplus, equalling total of uncollected contributions				
from Member Nations, amounts due as advances to the Working				
Capital Fund, amounts due to the Special Reserve Account and				
written-down value of FAO owned equipment, furniture and vehicles				160,395,505
Excess of Income over Expenditure for current financial period			13,307,258	
Accumulated Excess of Expenditure over Income at 31 December 1989			(52,707,121)	

Accumulated Excess of Expenditure over Income at 31 December 1991				(39,399,863)

				483,298,467
				=====

D O N O R	BALANCE AT 1 JANUARY 1990	RECEIPTS 1990	RECEIPTS 1991	PAYMENTS 1990	PAYMENTS 1991	BALANCE AT 31 DECEMBER 1991
GOVERNMENT SPONSORED SCHEMES						
LIBYAN ARAB JAMAHIRIYA	902,958	3818,649	3210,561	1968,678	3467,666	2495,824
LUXEMBOURG		47,273	831	1,840	42,412	3,852
MADAGASCAR	7,794	527	452			8,773
MALAWI	42,664	2,504	1,493	20,648	3,433-	29,446
MALTA	5,054	341	177		2,973	2,599
MAURITANIA	60,857	42,564-	18,293-			
MEXICO	2122,894	101,905	1054,054	1549,391	895,519	833,943
MOROCCO	4,630					4,630
MOZAMBIQUE	99,486	38,182	155,366	132,681	109,543	50,830
NEPAL	206,462-	333,739	5,396	38,597	8,863-	100,939
NETHERLANDS	5822,185	36097,560	35207,578	30514,195	33842,510	12770,618
NEW ZEALAND	78,016	5,054	4,142	9,040	1,364-	79,536
NIGERIA	33,281	2,870-	1,457			31,868
NORWAY	3527,168	2728,790	2172,320	3387,406	3681,272	1359,600
PAKISTAN	631,710	26,560	10,890	479,303	2,067-	191,924
PORTUGAL	6,034		5,804-			230
REPUBLIC OF KOREA	37,481	63,265	44,070	49,110	97,166	1,460-
REPUBLIC OF YEMEN	2726,407	1134,361	966,112	2640,103	1262,643	924,134
SOMALIA	532,817	34,379	29,320	45,375	4,447-	555,588
SPAIN	998,098	129,649	100,353-	148,148	100,514	778,732
SRI LANKA	74,572	3,108	413	70,082		8,011
SUDAN	346,837	17,633	327,935	102,096	167,905	422,404
SWAZILAND	4,749		4,529-			220
SWEDEN	547,241-	6375,940	1880,714	4299,677	4763,417	1353,681-
SWITZERLAND	2153,293	3265,548	4654,463	5235,221	5684,186	846,103-
TRINIDAD AND TOBAGO	17,924	1,210	1,041			20,175
TUNISIA	278,301	63,074	164,067	267,433	137,546	100,463
TURKEY	5239,346	1987,405	166,412-	4062,356	2747,476	250,507
UGANDA	526,961	14,879	1252,085	694,262	653,050	446,613
UNITED ARAB EMIRATES	25,239-	228,814	100,446	9,575	5,736	288,710
UNITED KINGDOM	2,268	228,777	377,442	31,435	557,362	19,690
UNITED REP TANZANIA	2572,790	2454,915	1284,088	2504,642	3312,846	494,305
UNITED STATES OF AMERICA	2484,553	167,000-	2334,521	1815,913	2266,399	569,762
URUGUAY	209,087	23,361	3,457	185,707	926	49,272
ZAIRE	167,806	70,511	6,685	72,293	80,432	92,277
ZAMBIA	597,488	248,707	2,209	575,523	336,322	63,441-
TOTAL GOVERNMENT SPONSORED SCHEMES	109108,792	126897,809	136951,964	159072,406	144652,487	69233,670

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D O N O R	BALANCE AT 1 JANUARY 1990	RECEIPTS 1990	RECEIPTS 1991	PAYMENTS 1990	PAYMENTS 1991	BALANCE AT 31 DECEMBER 1991
NON-GOVERNMENT SPONSORED SCHEMES						
ACTIONSGEMEINSCHAFT SOLIDARISCHE WELT	2,333	158	85		1,613	963
AFRICAN DEVELOPMENT BANK	587,890	98,227	15,191	428,712	150,343	122,253
ARAB GULF PROGRAMME FOR UN DEVELOPMENT ORGANIZATIONS	1579,225	521,348	54,079	867,759	238,653	940,082
ARAB ORGANIZATION FOR AGRICULTURAL DEVELOPMENT (AOAD)	130,995	8,822	7,325	11,437	21,835	113,870
ASIAN DEVELOPMENT BANK	77,982	4,712	776,714	64,601	10,822	805,629
AUSTRALIAN DEVELOPMENT ASSISTANCE BUREAU ADAB/UNDP TRUSTFUND	58,209	1-	101,039	63,319	151,745	55,817
BAND AID/LIVE AID		653,604	9,970	653,604	9,970	
BROT FUR DIE WELT, F.R.G.			135,918		134,789	1,129
C.S. FUND (CALIFORNIA)	7,613	513	435	139		8,422
CATHOLIC COMMITTEE FOR FFHC, SPAIN (MANOS UNIDAS)	214,693	79,371	71,776	131,685	115,114	119,041
CENTRO INTERNAZIONALE CROCEVIA (CROCEVIA)	6,501		336		1,413	5,424
CHRISTIAN AID, U.K.	14,872	671	389	6,717	4,461	4,754
COM.PERM.INTER-ETATS DE LUTTE CONTRE SECHERESSE DANSLE SAHEL	575,660		101,883		952	472,825
COMMUNAUTE ECONOMIQUE DES ETATS DE L'AFRIQUE DE L'OUEST			26,106			26,106
COMMUNAUTE ECONOMIQUE POUR L'AFRIQUE DE L'OUEST (CEAO)	8,229		87,461		62,543	33,147
CONF.OF ARAB MINISTERS OF AGRI.IN THE GULF & ARABIAN PENIN.	645,183	43,085	37,255	6,408	17,982	701,133
DANCHURCHAI, CHURCH OF DENMARK	5,781	1,564	228		529	3,916
DEUTSCHE WELTHUNGERHILFE	3,862	8,396	11,391	74	321	16,320
EUROPEAN ECONOMIC COMMUNITY (EEC)	1104,456	117,686	500,422	19,174	357,419	1345,971
EVANGELISCHE ZENTRALSTELLE FUR ENTWICKLUNGSHILFE E.V.	8,949	8,949				
FAO MONEY AND MEDALS PROGRAMME	843,253	605,479	1254,338	602,712	668,456	1431,902
FERTILIZER INDUSTRY ADVISORY COMMITTEE (FIAC)	517,765	487,930	526,526	641,403	615,820	274,998
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS	171,142	5,094	659,878	405,581	268,174	162,359
FUNDACION CODESPA		84,737	1,212	55,714	22,829	7,406
GEBECO NEDERLAND B.V., EX LIGA FABRIEKEN	2,115	2,115				
INSTITUT MONDIAL DU PHOSPHATE, FRANCE	14,062	17,644	718	15,622	13,170	3,632
INTERMON	628	270	344			14
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT	1,062	1,062	129,554		129,554	
INTERNATIONAL JUTE ORGANIZATION (IJO)	739	739	1338,635		910	1337,725
INTERNATIONAL TROPICAL TIMBER ORGANIZATION	10,037	115,486	5,828		36,261	95,090
IRISH FFHC COMMITTEE, GORTA	9,495	160	1,845		1,327	6,483
ISLAMIC DEVELOPMENT BANK			94,979		86,538	8,441
LATIN AMERICAN ORGANIZATION FOR FISHERIES DEVELOPMENT	52,704	298,951	232,948	279,202	258,818	46,583
MASSEY FERGUSON	2,484	168	144			2,796
MISCELLANEOUS DONORS	2307,723	117,977	273,092	160,270	839	2303,407
NORWEGIAN AGENCY FOR INTERNATIONAL DEVELOPMENT (NORAD)	65,799	3,351	1,570	40,093	6,728	23,905
OFFICE OF COORD. FOR UN ASSISTANCE PROGRAMME TO AFGANISTAN	7381,273	2940,457	2683,842	4204,873	3606,964	5193,735

D O N O R	BALANCE AT 1 JANUARY 1990	RECEIPTS 1990	RECEIPTS 1991	PAYMENTS 1990	PAYMENTS 1991	BALANCE AT 31 DECEMBER 1991
NON-GOVERNMENT SPONSORED SCHEMES						
OFFICE OF THE UN HIGH COMMISSIONER FOR REFUGEES (UNHCR)	98,167					98,167
OPEC FUND	51,874	3,474	2,113	1,672	45,747	10,042
ROCKEFELLER FOUNDATION, WASHINGTON, USA	126,331	98,068	1,219	241,545	26,526-	10,599
SWEDISH FREE CHURCH AID (DIAKONIA)	9,619	649	10,268-			
TROCAIRE, THE CATHOLIC AGENCY FOR WORLD DEVELOPMENT, IRELAND	11,587	675	7,127-	756	4,036-	8,415
UN CAPITAL DEVELOPMENT FUND (UNCDF)	134,884-	1500,000	1473,150	1638,265	2125,751	925,750-
UN EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION (UNESCO)	28,866	31,000		213		59,653
UN EMERGENCY OPERATIONS (UNEO)	21,763-	306,000	171,763	287,091	218,679	49,770-
UN ENVIRONMENT PROGRAMME (UNEP)	440,820-	675,724	1140,601	867,705	929,432	421,632-
UN FINANCING SYSTEM FOR SCIENCE AND TECHNOLOGY FOR DEV.	798					798
UN OFFICE FOR EMERGENCY OPERATIONS IN AFRICA (UNOEOA)	159,082-		159,081	129,863	38,841	168,705-
UN SPECIAL FUND FOR LAND-LOCKED DEVELOPING COUNTRIES	17,477		17,477-			
UN SUDANO-SAHELIAN OFFICE (UNSO)	272,507		1828,882	1572,644	1214,749	686,004-
UNDP ENERGY ACCOUNT	13,509			22	15,525	2,038-
UNDP T.F. FOR THE NATIONHOOD PROG. OF THE FUND FOR NAMIBIA	108,731					108,731
UNDP TRUST FUNDS FOR ASSISTANCE TO REFUGEES IN AFRICA	65,190			45	19,732-	84,877
UNION DOUANIERE ET ECONOMIQUE DE L'AFRIQUE CENTRALE (UDEAC)	30,119	28,586-	83			1,616
UNITED NATIONS DEVELOPMENT FUND FOR WOMEN (UNIFEM)	53,379		82,175	135,554	52,933	52,933-
UNITED NATIONS ORGANIZATION	2,615					2,615
UNITED NATIONS POPULATION FUND	2446,692		10026,589	5913,642	9069,270	2509,631-
UNITED SUPPORT OF ARTISTS FOR AFRICA, USA	11,197	713	3,653-	8,257		
TOTAL NON-GOVERNMENT SPONSORED SCHEMES	17853,503	8534,298	23835,335	19456,373	20612,359	10154,404

MULTIDONOR PROJECTS

SUPPORT FOR MAPUCHE COMMUNITIES	20,543	1,165	179	10,291	14,777	3,181-
SUPPORT FOR "LA SARITA" AGRICULTURAL SCHOOL	19,061	1,235	376	9,896	12,790	2,014-
PROGRAMME DE SOUTIEN	3,628	110,117	4,947	6,602	55,286	56,804
ETHIOPIA - SUPPORT OF WOMEN'S ASSOCIATIONS ON SETTLEMENT SCHEMES	181	181-				
AGRICULTURAL DEVELOPMENT ABELA FARECHEW SERVICE COOPERATIVE	17,033	505	8,348	14,887	5,390	5,609
SRAFA SALT PROJECT	19,195-	1,632-	1,446-	422		22,694-

D O N O R	BALANCE AT 1 JANUARY 1990	RECEIPTS 1990	RECEIPTS 1991	PAYMENTS 1990	PAYMENTS 1991	BALANCE AT 31 DECEMBER 1991
MULTIDONOR PROJECTS						
SMALL-SCALE FARMING AND FOOD PROCESSING PROGRAMME IN ACCRA	18,103	6,446	8,969	3,470	21,882	8,166
WOMEN'S FISH PRODUCTION PROJECT	1,489	101	86		195	1,481
COMMUNITY EDUCATION MEDIA EXPERIMENT UTTAR PRADESH	17,433	769	47,133	8,123		57,212
FOOT AND MOUTH DISEASE - EMERGENCY AID PROGRAMME	111,230	7,509	14,434	69	2,349	101,087
ANIMAL PROD. AND HEALTH COMMISSION ASIA, F.EAST, S.W.PACIFIC	124,353	41,416	27,362	141,212	40,271	11,648
COMMISSION CONTROLLING THE DESERT LOCUST IN NORTHWEST AFRICA	133,235	40,074	223,599	90,517	180,454	125,937
COMMISSION FOR CONTROLLING THE DESERT LOCUST IN NEAR EAST	73,380	137,447	252,112	27,042	59,758	229,379
DESERT LOCUST CONTROL PROJECT	200,053	145,866	193,510	43,465	110,810	385,154
EUROPEAN COMMISSION FOR CONTROL OF FOOT-AND-MOUTH DISEASE	17,846	177,164	237,930	212,930	242,408	22,398
INTERNATIONAL BOARD FOR PLANT GENETIC RESOURCES	1947,964	11004,202	7416,335	9138,421	7649,651	3580,429
CARIS CURRENT AGRICULTURAL RESEARCH INFORMATION SYSTEM	16,680	961	649	5,163	1,841	11,286
OUTLOOK FOR THE DEVELOPMENT OF THE PULP AND PAPER SECTOR	70,958	4,483	3,535	11,178	1,445	66,353
EUROPEAN COOPERATIVE RESEARCH NETWORK ON RURAL ENERGY	47,535	37,564	15,598	31,321	5,675	75,051
SOUTIEN AUX INITIATIVES LOCALES D'AUTOSUFFISANCE ALIMENTAIRE	16,862	35,671	24,002	57,619	15,491	3,425
AMELIORATION CULTURES MARAICHIERES ET FRUITIERES AERE-GOLLERE	18,287	1,145	2,511	16,921		
SMALL SCALE FISHERIES REHABILITATION AND DEVELOPMENT	9,542					9,542
TECNOLOGIA APROPIADA A PEQUENA PRODUCCION EN DEP. LAMBAYEQUE		36,584	20,273		52,387	4,470
ASSISTANCE TO THE FISHERIES COMMITTEE OF CECAF PROGRAMME	5,295	5,131	310	4,722		6,014
COMMISSION FOR THE CONTROL OF DESERT LOCUST IN EAST REGION	318,666	90,339	26,451	50,319	122,809	262,328
ASSISTANCE TO FFHC/AD PROGRAMME IN SOUTH ASIA	95,447	150,151	168,972	136,126	203,926	74,518
SOUTH ASIAN WORKSHOP ON WOMEN AND DEVELOPMENT - 1988	13,872	937	804		458	15,155
SMALL-SCALE FISHERFOLK COMMUNITIES BAY OF BENGAL GVT CONTR.	118,031	92,108	62,236	59,707	99,902	112,766
SMALL-SCALE FISHERFOLK COMMUNITIES IN THE BAY OF BENGAL	124,185	1184,373	1727,720	2154,996	1812,172	1179,260
INTER-REG. - INTEREST ACCOUNT FOR GCP/RAS/118/MUL (TF. 1680,00)	124,591	50,527	59,396			14,668
REGIONAL CENTRE FOR PALMS AND DATES	8,458	10,072	817	9,860	304	14,595
ARABIC VERSION AGROVOC	133,595	8,077	6,176	34,946	4,082	108,820
NEAR EAST REGIONAL ANIMAL PRODUCTION AND HEALTH (PHASE II)	593,347	291,464	80,847	406,247	33,932	431,649
ASSISTANCE TO INFOPECA - FISH PRODUCTS MARKETING SERVICE		22,777	51,698	6,034	32,565	35,816
PROGRAMME DE DEVELOPPEMENT RURAL DANS LA ZONE DU GANDIOLAIS	19,356	778	430	11,315	2,222	7,027
AGRICULTURAL DEVELOPMENT INITIATIVES BY FARMERS ASSOCIATIONS	15,002	134,171	6,766	15,840	38,695	101,404
TOGO - MODERNIZATION OF WELLS AND TRAINING OF SPECIALIZED TECHNICIANS	17,171	17,171				
ETHIOPIA - NGO SUPPORT FOR LOCAL AGRICULTURAL REHAB. INITIATIVES (GENERAL INCOME ACCOUNT)	1692,215	601,108	33,263			1057,844
NGO SUPPORT FOR AGRICULTURAL REHAB. INITIATIVES (PHASE II)		577,420	426,868	577,420	426,868	
AGRICULTURAL DEVELOP. IN BOUGEA SERVICE COOPERATIVE SOCIETY		95,897	62,860	95,897	62,860	

D O N O R	BALANCE AT 1 JANUARY 1990	RECEIPTS 1990	RECEIPTS 1991	PAYMENTS 1990	PAYMENTS 1991	BALANCE AT 31 DECEMBER 1991
MULTIDONOR PROJECTS						
SUPPORT FOR FOOD PRODUCTION BY WOMEN - PROJECT NO.3		87,834	23,522-	87,834	23,522-	
AGRIC. DEV. IN MANDALKEA SERVICE COOPERATIVE - PROJECT NO.4		103,598	35,220	103,598	35,220	
AGRICULTURAL DEVELOPMENT IN WEVITO VALLEY (PHASE II)		123,010	63,965-	123,010	63,965-	
AGRICULTURAL DEVELOPMENT IN DERA SERVICE COOPERATIVE		71,116	19,456-	71,116	19,456-	
AGRICULTURAL DEVELOPMENT IN TUKA SERVICE COOPERATIVE		55,598	17,694-	55,598	17,694-	
ETHIOPIA - AGRICULTURAL DEVELOPMENT IN MANUKA SERVICE COOPERATIVE		1,670		1,670		
AGRICULTURAL DEVELOPMENT IN USHIE SERVICE COOPERATIVE		8,963	3,638-	8,963	3,638-	
AGRICULTURAL DEV. IN ZENGA DORMALE SERVICE COOPERATIVE AREA		93,973	136,999	93,973	136,999	
AGRICULTURAL DEVELOPMENT GAGA GOCHO SERVICE COOPERATIVE AREA			101,719		101,719	
INTER-REG. - IFAD GENERAL INCOME ACCOUNT FOR THE REG. PILOT						
BIOLOG. CONTROL PROG. FOR NEW WORLD SCREW WORM IN N. AFRICA		435,485	117,714			553,199
PILOT TEST FOR ERADICATION OF SCREWORM FROM NORTH AFRICA		642,646	734,726	642,646	734,726	
PROGRAMME FOR ERADICATION OF SCREWORM FROM NORTH AFRICA		5152,422	25201,604	3697,472	21494,935	5161,619
FOOD SECURITY ASSISTANCE SCHEME (FSAS)	2437,988	7389,565	9906,217	8125,551	8853,805	2754,414
NEAR EAST COOPERATIVE PROGRAMME (NECP)	730,965	45,525	24,641	243,464	216,450	341,217
OFFICE OF SPECIAL RELIEF OPERATIONS (OSRO)	3812,422	3241,796	13175,279	4607,171	4181,921	11440,405
INTERNATIONAL FERTILIZER SCHEME (IFS)	526,032	27,517	66,326	350,418	48,610	220,847
PREVENTION OF FOOD LOSSES (PFL)	3603,090	236,695	188,985	539,729	744,099	2744,942
TOTAL MULTIDONOR PROJECTS	16858,800	31480,769	60394,675	32145,251	47654,650	28934,343
=====						
GRAND TOTAL REGULAR PROGRAMME TRUST FUND	143821,095	166912,876	221181,974	210674,032	212919,496	108322,417
=====						

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SUMMARY OF TRANSACTIONS ON SUPPORT COSTS ACCOUNTS
AND OTHER RESERVE FUNDS
FOR THE FINANCIAL PERIOD 1990-91

SUPPORT COSTS ACCOUNTS				
	Balance at 1 January 1990	Income	a/ Expenditure including Outstanding Obligations	Balance at 31 December 1991
	\$	\$	\$	\$
UNDP	6,279,526	46,848,627	52,781,093	347,060
WFP	0	18,342,741	18,342,741	0
Trust Funds	4,071,827	37,176,354	38,922,701	2,325,480
TCP	2,407,237	4,215,696	4,657,568	1,965,365
Total	12,758,590	106,583,418	114,704,103	4,637,905

OTHER RESERVE FUNDS					
	Balance at 1 January 1990	Income	Expenditure and Outstanding Obligations	Amounts Transferred	Balance at 31 December 1991
	\$	\$	\$	\$	\$
WORLD BANK COOPERATION PROGRAMME Shared Costs Account	0	18,568,738	24,758,318	(6,189,580)	b/ 0
PUBLICATIONS REVOLVING FUND General Publications	345,348	1,744,296	1,663,960	335,348	c/ 90,336
Ceres FAO Review	0	1,412	1,938,053	(1,936,641)	d/ 0
TAX EQUALIZATION FUND	898,098	69,200,000	1,012,721	68,500,000 595,470	e/ f/ (10,093)
COMPENSATION PLAN RESERVE FUND	21,188,517	7,863,171	3,552,808		25,498,880
TERMINAL PAYMENTS FUND	14,486,455	4,626,904	2,941,066	15,000,000	g/ 1,172,293 h/
SEPARATION PAYMENTS SCHEME FUND	47,328,287	22,528,465	6,191,459		63,665,293
OTHER FIDUCIARY FUNDS	10,835,000	4,637,071	5,982,849		9,489,222
TOTAL	95,081,705	129,170,057	48,041,234	76,304,597	99,905,931

a/ Includes sundry income or (loss) of \$46,549, (\$17,233), \$10,063, and (\$3,408) for UNDP, WFP, Trust Funds, and TCP respectively.

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

c/ \$335,348 transferred to Miscellaneous Income in accordance with Financial Regulation 6.9; reflects the balance at 31 December 1989 less \$10,000 retained.

d/ \$1,886,641 transferred as expenditure against the Regular Programme allotment as provided in the Programme of Work and Budget and \$50,000 against the income of General Publications.

e/ Transfer to the credit of Member Nations' contributions accounts. Reflects credit of \$69,200,000 for staff assessment less \$700,000 required to meet the estimated cost of tax refunds to staff members of a Member Nation.

f/ Transfer to the credit of a Member Nation's contribution account. Reflects the surplus of a Member Nation's contribution to meet the cost of refunds to staff members in 1988-89 over the actual cost.

g/ \$15,000,000 from the Terminal Payments Fund was advanced to the Regular Programme as a loan during the period.

h/ Total assets of the Terminal Payments Fund, including the loan advanced to Regular Programme, was \$16,172,293.

TRANSACTIONS ON THE SPECIAL RESERVE ACCOUNT (note 5)
ESTABLISHED BY CONFERENCE RESOLUTION 13/81
FOR THE FINANCIAL PERIOD 1990-91

AUTHORIZED LEVEL

	\$
Balance at 1 January 1990 (5% of 1990-91 PWB of \$568,800,000)	28,440,000
Increase at 31 December 1991	5,405,550

Balance at 31 December 1991 (5% of 1992-93 PWB of \$676,911,000)	33,845,550
	=====

CASH LEVEL

<u>RECEIPTS</u>	\$	<u>PAYMENTS</u>	\$
Balance at 1 January 1990	19,510,876	Negative currency variance on staff costs arising from differences between the Lira exchange rate used for the budget (1,335) and the average rate in 1990-91 (1,221)	18,845,793
Receipts from Member Nations against the Special Assessment of 1988	218,764 a/	Transfer net loss on Profit and Loss on Exchange Account during 1990-91 in accordance with Conference Resolution 17/89	6,430,256
Deficit transferred to General Fund	5,546,409		
	-----		-----
	25,276,049		25,276,049
	=====		=====

a/ The amount outstanding from Member Nations in respect of the Special Assessment of 1988 is \$3,271,333

Schedule 3.6

TRANSACTIONS ON THE WORKING CAPITAL FUND
FOR THE FINANCIAL PERIOD 1990-91

(note 2)

AUTHORIZED LEVEL

	\$
Balance at 1 January 1990	20,000,000

Balance at 31 December 1991	20,000,000
	=====

CASH LEVEL

<u>RECEIPTS</u>	\$	<u>PAYMENTS</u>	\$
Balance at 1 January 1990	—	Transferred to the General Fund in accordance with Financial Regulation 6.2 (a)(i)	18,000,000
Transferred from the receipt of arrears of contributions (Statement II)	17,977,238		
Receipts from Member Nations against the Re-assessment of 1988 and 1989	203,718 a/	Balance at 31 December 1991	180,956
	-----		-----
	18,180,956		18,180,956
	=====		=====

a/ The amount outstanding from Member Nations in respect to the Re-assessment is \$1,819,044

**STATUS OF PROJECTS FUNDED UNDER THE TECHNICAL COOPERATION
PROGRAMME AGAINST 1990-91 BUDGET APPROPRIATIONS AT 31 DECEMBER 1991**

<u>Country</u>	<u>Number of Projects</u>	<u>Project Budgets</u> \$	<u>Expenditure including Outstanding Obligations</u> \$	<u>Unobligated Balance of Budget</u> \$
AFRICA				
Africa Regional	8	1,647,000	925,360	721,640
Angola	2	510,000	335,865	174,135
Benin	2	190,000	105,864	84,136
Botswana	2	390,000	225,732	164,268
Burkina Faso	5	786,385	727,332	59,053
Burundi	6	664,000	336,304	327,696
Cameroon	5	692,100	438,738	253,362
Cape Verde	4	591,500	414,685	176,815
Central African Republic	1	131,000	57,077	73,923
Chad	3	584,000	385,849	198,151
Comoros	2	303,000	193,912	109,088
Congo	5	452,200	130,122	322,078
Cote d'Ivoire	4	718,192	274,797	443,395
Equatorial Guinea	4	415,000	194,229	220,771
Ethiopia	6	1,148,000	760,041	387,959
Gabon	1	72,000	54,766	17,234
Gambia	5	613,000	549,383	63,617
Ghana	3	506,000	390,231	115,769
Guinea	9	1,009,000	679,393	329,607
Guinea-Bissau	6	432,000	164,858	267,142
Kenya	9	1,135,000	540,985	594,015
Lesotho	1	328,000	302,665	25,335
Madagascar	5	637,000	461,132	175,868
Malawi	7	954,000	748,238	205,762
Mali	5	608,000	316,376	291,624
Mauritania	5	812,000	391,091	420,909
Mauritius	2	131,000	179,846	(48,846) a/
Mozambique	7	1,218,000	382,575	835,425
Namibia	3	495,000	229,642	265,358
Niger	1	50,800	34,928	15,872
Nigeria	6	929,200	387,592	541,608
Rwanda	3	297,000	190,279	106,721
Sao Tome & Principe	3	70,000	47,236	22,764
Senegal	3	515,000	416,963	98,037
Seychelles	5	364,000	210,258	153,742
Sierra Leone	3	450,600	292,136	158,464
Somalia	2	157,000	57,254	99,746
Swaziland	3	209,000	132,270	76,730
Tanzania	9	832,100	739,327	92,773
Togo	8	516,000	263,327	252,673
Uganda	3	364,000	240,542	123,458
Zaire	3	373,000	57,345	315,655
Zambia	5	839,000	497,699	341,301
Zimbabwe	4	729,000	382,947	346,053
	188	24,868,077	14,847,191	10,020,886

Country	Number of Projects	Project Budgets \$	Expenditure including Outstanding Obligations \$	Unobligated Balance of Budget \$
<u>ASIA AND THE PACIFIC</u>				
Afghanistan	1	57,000	17,049	39,951
Asia Regional	10	1,790,880	1,101,269	689,611
Bangladesh	5	1,364,000	631,909	732,091
Bhutan	2	247,000	118,193	128,807
China	10	1,609,500	865,012	744,488
Cook Island	1	103,000	77,010	25,990
Democratic Republic of Korea	6	470,000	448,913	21,087
Fiji	4	328,000	277,023	50,977
India	3	373,000	141,952	231,048
Indonesia	4	445,000	323,011	121,989
Iran	4	319,000	206,936	112,064
Kampuchea	2	47,000	45,774	1,226
Korea, Republic of	3	371,000	226,932	144,068
Laos	6	700,000	262,081	437,919
Malaysia	1	117,000	77,250	39,750
Maldives	2	134,000	123,886	10,114
Mongolia	5	611,000	350,441	260,559
Nepal	4	453,000	538,796	(85,796) a/
Pakistan	6	785,000	370,667	414,333
Papua New Guinea	1	165,000	81,335	83,665
Philippines	5	632,000	464,072	167,928
Samoa	2	239,000	200,722	38,278
Solomon Islands	1	96,000	83,468	12,532
Sri Lanka	3	374,000	213,100	160,900
Thailand	3	735,000	499,192	235,808
Tonga	2	387,000	257,467	129,533
Union of Myanmar	7	715,000	272,455	442,545
Viet Nam	5	529,100	528,054	1,046
	108	14,196,480	8,803,969	5,392,511
<u>EUROPE</u>				
Bulgaria	2	115,000	10,588	104,412
Cyprus	3	277,500	190,828	86,672
Czechoslovakia	1	125,000	10,000	115,000
Hungary	2	178,000	28,000	150,000
Malta	1	170,000	185,822	(15,822) a/
Poland	1	225,000	188,211	36,789
Turkey	5	887,000	236,957	650,043
Yugoslavia	1	100,000	13,570	86,430
	16	2,077,500	863,976	1,213,524
<u>LATIN AMERICA AND THE CARIBBEAN</u>				
Antigua & Barbuda	1	145,000	109,472	35,528
Argentina	4	777,000	520,584	256,416
Bahamas	2	310,000	199,508	110,492
Belize	3	345,000	44,620	300,380
Bolivia	2	330,000	257,214	72,786
Brazil	4	750,000	389,227	360,773
Central America	1	275,000	137,590	137,410
Chile	4	600,000	404,087	195,913
Colombia	4	590,000	97,501	492,499
Costa Rica	4	600,000	246,434	353,566
Cuba	6	467,500	269,970	197,530
Dominica	1	65,000	56,663	8,337
Dominican Republic	3	420,000	105,156	314,844
Ecuador	4	695,000	239,800	455,200
El Salvador	3	380,000	256,296	123,704
Grenada	2	290,000	115,955	174,045

<u>Country</u>	<u>Number of Projects</u>	<u>Project Budgets</u> \$	<u>Expenditure including Outstanding Obligations</u> \$	<u>Unobligated Balance of Budget</u> \$
Haiti	1	215,000	153,892	61,108
Honduras	5	421,000	230,438	190,562
Jamaica	3	525,000	83,702	441,298
Latin America Reg.	10	1,932,000	1,371,367	560,633
Mexico	6	1,298,500	935,640	362,860
Nicaragua	3	290,000	75,049	214,951
Panama	2	290,000	175,250	114,750
Paraguay	3	460,000	306,822	153,178
Peru	5	790,000	542,701	247,299
Saint Lucia	2	153,000	53,955	99,045
Suriname	2	360,000	122,448	237,552
S. Christopher Nevis	1	190,000	88,227	101,773
S. Vincent & Grenadines	1	160,000	43,477	116,523
Trinidad & Tobago	4	412,500	168,440	244,060
Uruguay	2	195,000	77,785	117,215
Venezuela	1	195,000	37,928	157,072
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	99	14,926,500	7,917,198	7,009,302
 <u>NEAR EAST</u>				
Algeria	4	158,000	21,011	136,989
Djibouti	4	196,000	80,858	115,142
Egypt	6	880,000	426,188	453,812
Iraq	2	345,000	21,000	324,000
Jordan	4	464,000	154,629	309,371
Lebanon	4	778,500	655,723	122,777
Libya	2	408,000	318,766	89,234
Morocco	4	458,000	217,626	240,374
Near East Regional	2	543,000	395,032	147,968
Sudan	5	468,000	255,140	212,860
Syria	4	620,000	359,353	260,647
Tunisia	2	749,000	320,307	428,693
Yemen Arab Republic	5	751,200	387,517	363,683
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	48	6,818,700	3,613,150	3,205,550
 <u>MISCELLANEOUS</u>				
	---	---	209,959	(209,959)
	---	---	---	---
 TOTAL	 459	 62,887,257	 36,255,443	 26,631,814
	===	=====	=====	=====

a/ Project Budget under revision.

Summary

1990-91 Budget Appropriations	67,767,000
Total Expenditure & Obligations against 1990-91 Budget Appropriations	36,255,443

Unobligated Balance carried forward in accordance with Financial Regulation 4.3 (Statement III)	31,511,557
	=====

Annex 1.2

STATUS OF PROJECTS
FUNDED UNDER THE TECHNICAL COOPERATION PROGRAMME
AGAINST 1988-89 BUDGET APPROPRIATIONS AT 31 DECEMBER 1991

<u>Country</u>	<u>No. of Projects</u>	<u>Expenditure including Outstanding Obligations</u> \$
<u>AFRICA</u>		
African Regional	22	2,706,499
Angola	3	276,717
Benin	3	437,677
Botswana	4	244,644
Burkina Faso	13	610,023
Burundi	7	511,107
Cameroun	5	561,586
Cape Verde	6	323,938
Central African Republic	8	771,637
Chad	6	778,294
Comoros	1	138,923
Congo	2	51,858
Côte D'Ivoire	6	686,867
Equatorial Guinea	2	87,956
Ethiopia	15	1,792,214
Gabon	1	72,850
Gambia	3	127,804
Ghana	5	391,606
Guinea	6	502,820
Guinea Bissau	3	599,753
Kenya	5	266,562
Lesotho	5	657,689
Liberia	6	571,407
Madagascar	9	707,691
Malawi	7	969,516
Mali	4	382,004
Mauritania	6	606,163
Mauritius	2	125,123
Mozambique	6	741,388
Namibia	6	851,102
Niger	9	879,039
Nigeria	1	279,803
Rwanda	9	638,326
Senegal	5	575,468
Seychelles	3	259,357
Sierra Leone	5	437,918
Somalia	7	907,942
Swaziland	3	175,504
Tanzania	13	1,465,364
Togo	5	568,764
Uganda	10	1,084,821
Zaire	3	297,501
Zambia	8	889,153
Zimbabwe	4	410,551
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	262	26,422,929

Annex 1.2
(Continued)

Expenditure including
Outstanding Obligations
\$

Country No. of Projects

ASIA AND THE PACIFIC

Asia Regional	8	944,869
Afghanistan	1	100,641
Bangladesh	4	520,763
Bhutan	3	551,988
China	14	1,500,428
Cook Islands	3	218,772
Democratic Kampuchea	3	467,689
Democratic Rep. of Korea	4	245,427
Fiji	3	312,610
India	8	701,694
Indonesia	11	1,098,175
Iran	6	454,349
Korea, Republic of	2	250,369
Laos	7	1,047,815
Malaysia	1	74,267
Maldives	2	229,066
Mongolia	4	679,273
Nepal	5	515,982
Pakistan	7	405,206
Solomon Islands	3	203,535
Philippines	9	699,406
Samoa	3	321,911
Papua New Guinea	1	64,510
Sri Lanka	5	474,295
Thailand	9	985,550
Tonga	3	26,414
Union of Myanmar	3	401,039
Viet Nam	7	1,163,196
	---	-----
	139	14,659,239

EUROPE

Albania	1	82,062
Bulgaria	1	42,210
Cyprus	4	388,782
Czechoslovakia	1	56,136
Malta	3	131,310
Poland	1	104,194
Turkey	7	368,272
Yugoslavia	1	55,458
	---	-----
	19	1,228,424

<u>Country</u>	<u>No. of Projects</u>	<u>Expenditure including Outstanding Obligations</u> \$
<u>LATIN AMERICA AND CARIBBEAN</u>		
Latin America		
Regional	16	2,396,848
Antigua & Barbuda	2	199,571
Argentina	4	491,079
Bahamas	1	26,081
Barbados	2	221,216
Belize	2	177,431
Bolivia	3	162,666
Brazil	5	475,270
Chile	4	384,097
Colombia	3	311,263
Costa Rica	3	418,818
Cuba	8	820,631
Dominica	4	622,282
Dominican Republic	2	157,624
Ecuador	4	410,212
El Salvador	4	345,820
Grenada	3	271,773
Guatemala	3	182,032
Guyana	4	459,870
Haiti	3	370,727
Honduras	4	402,207
Jamaica	6	484,708
Mexico	5	693,688
Nicaragua	7	1,005,234
Panama	1	13,476
Peru	2	115,661
St. Christ. & Nevis	2	149,980
St. Lucia	1	1,913
St. Vincent & Gren.	2	17,039
Suriname	2	18,973
Trinidad & Tobago	1	131,178
Uruguay	3	229,095
Venezuela	2	302,753
	---	-----
	118	12,471,216

NEAR EAST

Near East Regional	6	807,329
Algeria	4	587,291
Djibouti	1	279,698
Egypt	5	520,220
Iraq	5	462,594
Jordan	1	149,684
Lebanon	3	373,008
Libya	1	327,629
Morocco	4	244,219
Sudan	7	1,168,654

Annex 1.2
(Concluded)

<u>Country</u>	<u>No. of Projects</u>	<u>Expenditure including Outstanding Obligations</u> \$
Syria	4	588,440
Tunisia	8	849,688
Yemen Arab Rep.	3	239,399
Yemen People's Democratic Rep. of	7	722,100
	--	-----
	59	7,319,953
<u>MISCELLANEOUS</u>		<u>1,046,090</u>
 TOTAL	 <u>597</u>	 <u>63,147,851</u>

Summary

1988-89 Budget Appropriations	63,148,000
Total Expenditure and Obligations against 1988-89 Budget Appropriations	<u>63,147,851</u>
Unobligated Balance transferred to Miscellaneous Income (Statement II)	149

NOTES TO THE FINANCIAL STATEMENTS

1. BUDGET APPROPRIATIONS, TRANSFERS AND EXPENDITURE

The effective Working Budget for 1990-91 approved by the Conference at its Twenty-Fourth Session (Resolution 8/89) totalled US\$568,800,000. The appropriations voted by the Conference are shown in Statement 1. With the approval of the Finance Committee at the 72nd Session the Director-General effected several inter-Chapter budgetary transfers under Financial Regulation 4.5(b)(i).

2. WORKING CAPITAL FUND

The Working Capital Fund balance of US\$17,977,238 at the end of 1989 was transferred to the General Fund to finance budgetary expenditures pending receipt of contributions (Financial Regulation 6.2(a)(i)). The balance on the Fund carried into 1990 was thus zero.

In March 1991 the Working Capital Fund was replenished with US\$17,977,238 from the General Fund in accordance with Financial Regulation 6.5(a), which stipulates that advances from the Working Capital Fund shall be reimbursed as soon as feasible.

In June 1991 it was necessary again to transfer US\$18,000,000 from the Working Capital Fund to the General Fund to finance budgetary expenditure.

In October 1991 arrears of contributions received from the USA in the amount of US\$13,716,000 were utilized to replenish the Working Capital Fund by this amount. However, at the end of October it became necessary to transfer this amount back again to the General Fund.

Receipts from Member Nations during the biennium 1990-91 amounted to US\$203,718. Member Nations owed US\$1,819,044 against the 1988 and 1989 re-assessments at 31 December 1991. The balance on the Working Capital Fund carried forward into 1992 as a result of the above transactions was US\$180,956 as reported on Schedule 3.6.

3. MISCELLANEOUS INCOME

Net Interest on Bank Accounts & Deposits includes a charge for external borrowing costs of \$721,643 and internal borrowing costs of \$923,080 as provided for in Conference Resolution 2/80 and 14/83. Other Sundry Income includes a write-back of payable items totalling \$2,001,970.

4. TECHNICAL COOPERATION PROGRAMME

The establishment of a Technical Cooperation Programme provides FAO with the flexibility to respond to urgent, small-scale requests from developing countries. Directed at providing assistance for emergencies, investment proposals, training and small-scale unforeseen requirements, the projects are of short-term duration, not to exceed US\$400,000, in any one instance. The status of projects, summarized by country is shown in Annexes 1.1 and 1.2. From 1 January 1988 a Support Cost Account was set up to recover the direct operating expenses of TCP projects. At 31 December 1991 the balance of this Fund was US\$1,965,365 (Schedule 3.4), and the unobligated TCP Funds to be carried forward to 1992-93 in accordance with Financial Regulation 3.4 amounted to US\$31,511,557 (Statement II).

5. SPECIAL RESERVE ACCOUNT

The Special Reserve Account was established by Conference Resolution 27/77 to protect the Organization's Programme of Work against the effects of unbudgeted extra costs. Conference Resolution 17/89 directed that the net balance of Profit or Loss on Exchange in addition to the Currency Variance on Staff costs should be charged to the Special Reserve Account.

The balance on the Special Reserve Account carried forward from 1989 into 1990 should have been 5 percent of the 1990-91 effective working budget of US\$568,800,000 viz., US\$28,440,000. However, as there were no funds available to increase the balance on the Account to its authorized level, the cash balance of US\$19,510,876 as at 31 December 1989 was carried forward to 1990.

During the 1990-91 biennium the unfavourable relationship between the average Lira/Dollar UN rate of exchange Lire 1,221 and the budget rate Lire 1,335 created losses on Staff Costs in the amount of US\$18,845,793 which were charged to the Special Reserve Account. In addition there was a net loss on the Profit and Loss on Exchange Account of US\$6,430,256 which was also charged to the Special Reserve Account. US\$218,764 were received from Member Nations towards the special assessment of 1988. A further US\$3,271,333 is owed by Member Nations in respect to this assessment.

The balance on the Special Reserve Account as at 31 December 1991 as a result of the above transactions amounted to a deficit of US\$5,546,409. This has been transferred to the General Fund and a zero balance was carried forward into 1992.

6. OTHER ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Other Accounts Receivable

	\$
Salary and Other Advances	16,065,056
Deposits and Prepayments	1,510,107
Joint Programme with Development Banks	4,422,670
Due from Other Agencies/Organizations	2,091,036
Due from Governments	236,327
Sundries	<u>3,301,734</u>
Total Accounts Receivable	<u>27,626,930</u>

Accounts Payable

	\$
Payroll Accruals	4,191,291
Joint Programme with Development Banks	1,402,303
Due to Other Agencies/Organizations	6,907,165
Pension and Medical Schemes	3,876,197
Member Nations' Contributions in Advance	181,419
Unallocated Receipts	2,848,020
Due to Governments	1,418,218
Sundries	<u>8,290,801</u>
Total Accounts Payable	<u>29,115,414</u>

7. INVESTMENTS

The value of investments at cost, including accrued income, and at market value at 31 December 1991 is as follows:

	<u>At Cost</u>	<u>Market Value</u>
	\$	\$
Compensation Plan Reserve Fund	25,703,946	29,730,645
Separation Payments Scheme Fund	60,548,282	69,424,858
	<u>86,252,228</u>	<u>99,155,503</u>

8. EQUIPMENT, FURNITURE AND VEHICLES

(a) The inventory records of the Organization show that at 31 December 1991 the gross value of FAO-owned equipment, furniture and vehicles at cost price was US\$123,053,995 of which US\$41,234,483 related to the Regular Programme and US\$81,819,512 to Trust Funds. The costs of these items are charged to expenditure when purchased and are shown on the Statement of Assets and Liabilities, Statement III, at a nominal value of US\$1.

(b) The valuation of the stock of FAO money and medals at 31 December 1991 was

US\$167,527. Coins are valued at face value converted at the current UN exchange rate, with certain exceptions, e.g., coins purchased at a premium above face value. Medals and bullion for minting medals are valued at the lower of cost or replacement value. These items are included in the nominal value of \$1 for inventories on Statement III.

9. OUTSTANDING OBLIGATIONS

With effect from 1 January 1990, the Organization changed the method of accounting for Trust Funds expenditure. For Trust Funds other than those funded by U.N. Agencies, for which the treatment remained as in prior periods, the balances of some unliquidated obligations are now included in Trust Funds' expenditure.

The effect of the change was to add \$20,235,907 to the Trust Funds expenditure (Schedule 3.3) for the biennium, and the same amount to outstanding obligations noted on the consolidated Statement of Assets and Liabilities. Had this policy been applied in 1988-89, the corresponding amount at the end of 1989 would have been \$26,752,242.

10. LOANS PAYABLE

The Conference at its Twenty-Sixth Session was informed that the Director-General as authorized by Conference Resolution 14/83 and in order to implement the Programme of Work and Budget, had been constrained to borrow US\$30 million internally and up to a maximum of US\$55 million from external sources in October 1991. At the end of 1991 borrowings amounted to US\$32 million and is included in Statement III as Loans Payable. This was made up of US\$17 million of external bank borrowing plus US\$15 million borrowed internally from the Terminal Payments Fund. US\$17 million of external borrowing was repaid on 21 February 1992, and the US\$15 million of internal borrowing was repaid to the Terminal Payments Fund on 9 March 1992.

11. SERVICES PROVIDED BY THE ORGANIZATION

Accommodation, furniture and equipment were made available free of charge to the Staff Restaurant and Canteens. In addition, cleaning, water, gas and electricity services, estimated at US\$15,500 were provided during the biennium.

12. PERSONNEL RELATED LIABILITIES

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

The Compensation Plan provides compensation for all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties. The balance on the Fund at 31 December 1991 was \$25,498,880 (Schedule 3.4). An actuarial review was carried out on 31 December 1988 the results of which showed that the fund was in surplus and liabilities were fully covered. The next

actuarial review will be made at 31 December 1992.

The Terminal Payments Fund provides for repatriation entitlements (repatriation grant) for staff members funded by Trust Fund and Trust Fund Support Costs. The balance on the Fund at 31 December 1991 was \$16,172,293 (Schedule 3.4). The estimated liability at 31 December 1991 was US\$6,712,000 and therefore the fund is in surplus.

The Separation Payments Scheme Fund provides for separation entitlements to general service staff based at Headquarters. The Fund covers liabilities fully except in the case of Regular Programme where 66.7 percent of the liabilities are funded and 33.3 percent are paid from the Regular Programme Budget. An actuarial review was carried out on 1 January 1990 the results of which confirmed the above situation and showed an overall shortfall of US\$16,721,443 relating to the Regular Programme. The actuary recommended to continue the present level of contributions which according to their calculations would give rise to an increased funding from 66.7 percent to 75 percent and decrease from 33.3 percent to 25 percent payments from the Budget. The Finance Committee at their Sixty-eighth Session (May 1990) decided to maintain the present arrangements in order to eliminate the deficit on the Scheme and confirmed the view of the Director-General that the actuarial review be performed every four years. The balance on the Fund at 31 December 1991 was \$63,665,293 (Schedule 3.4). The Organization estimated the liability (for Regular Programme, Support Costs and Trust Funds staff) at 31 December 1991 at \$95,976,000.

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

Repatriation Grant (Regular Programme and Support Costs)	\$46,000,000
Accrued leave (RP, Trust Funds and SC)	\$14,000,000
Repatriation Travel and Household Removals (RP, TF and SC)	\$46,000,000

Finally the Organization has a long-term commitment in relation to after service medical coverage for retirees. In 1985, when the scheme was free, an actuarial review estimated the liability to be some US\$100 million. Since then, with the agreement of the staff associations, a premium sharing arrangement was agreed and implemented. A proposal to undertake an actuarial review is presently under consideration.

13. PENDING LITIGATION

During the biennium there were twenty-two cases against FAO before the ILO Administrative Tribunal. Five cases are still pending but only two might have financial implications for which, however, it is not possible to give any reliable estimates.

14. FORWARD EXCHANGE CONTRACTS

The Director-General entered into forward exchange contracts for the purchase of Italian Lira on 26 November 1991. The total liability under these contracts is US\$360 million payable in amounts of US\$15 million per month from January 1992 until December 1993. These contracts are expected to provide the Organization with nearly all its Lira requirements over the biennium 1992-93 at rates considerably more beneficial than the Budget Rate approved for that biennium.

15. EX-GRATIA PAYMENTS

The survivors of three FAO victims of a plane crash were paid from the Compensation Plan Widow's pension and Children's benefits. Furthermore, a lump sum of US\$232,743 compensation was paid by the Tanzanian authorities to the survivors of the victims. In view of the tragic circumstances, the Director-General decided not to deduct this amount from the compensation paid from the Organization in line with normal practice, and approved the lump sum of US\$232,743 as an ex-gratia payment to the survivors of the victims.