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FINANCIAL REPORT AND STATEMENTS: VOLUME II
UNITED NATIONS DEVELOPMENT PROGRAMME 1990-91

CONTENTS

	<u>Pages</u>
Report of the External Auditor	iii
Opinion of the External Auditor	26
Statement I - Status of Funds at 31 December 1991	27
Schedule 1 - Expenditure by Source of Funds for the Biennium ended 31 December 1991	28
Schedule 2 - UNDP Expenditure by Country for the Biennium ended 31 December 1991	29
Notes to the Financial Statements	33

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REPORT OF THE EXTERNAL AUDITOR ON THE STATEMENT SHOWING
THE STATUS OF FUNDS AS AT 31 DECEMBER 1991 ADVANCED TO
THE FOOD AND AGRICULTURE ORGANIZATION BY
THE UNITED NATIONS DEVELOPMENT PROGRAMME

CONTENTS

Paragraphs

INTRODUCTION

General	1
Presentation of the Status of Funds Statement	2 - 3
Audit Approach	4 - 7
Overall Results	8
Content of the Report	9 - 12

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORTS

General	13
Report Embracing Project Evaluations 1986-87 and 1988-89	14
Report on Financial Matters 1988-89	15 - 16

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

Management Matters	17 - 23
Financial and Other Matters	24 - 27

DETAILED FINDINGS ON MANAGEMENT MATTERS

Fisheries Vessels Used for Research, Development and Training	28 - 48
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DETAILED FINDINGS ON FINANCIAL MATTERS

Implementation of a New Computerised Accounting System and External Audit of 1990-91 Accounts	49 - 73
Programme Support Costs	74 - 75
Unliquidated Obligations	76 - 78
Prior Biennium Unliquidated Obligations	79 - 82
Reconciliation of FAO Accounts with UNDP Headquarter's Records	83 - 84
Cash at Bank	85 - 86
Early Closure of Field Accounts	87 - 88
Inventory Control System	89 - 93

OTHER MATTERS

Losses etc	94
Standard Basic Executing Agency Agreement	95 - 98
Acknowledgement	99

INTRODUCTION

General

1. I have audited the Statements and supporting Schedules relating to the participation of the Food and Agriculture Organization (FAO) in the United Nations Development Programme (UNDP) for the financial period 1 January 1990 to 31 December 1991 in accordance with the Financial Regulations and the "Additional Terms of Reference Governing External Audit" of the FAO. My audit 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 the Status of Funds Statement

2. Because of technical difficulties encountered during the implementation of a major upgrade of its computerised accounting systems, the FAO, with my concurrence, asked for an extension to mid-1992 of the deadline for submission of an audited Financial Statement to the UNDP, set for 30 April 1992. A draft, unaudited Statement was presented to the UNDP before the deadline. However, as I explain below, my examination revealed the need for some adjustments to the draft Status of Funds Statement as at 31 December 1991 which were incorporated into the audited Financial Statements.

3. This Statement includes some changes to format, compared with previous biennium. This reflects the request made by the UNDP for implementing agencies to include comparative figures from the 1988-89 biennium in their Statements for the period ending 31 December 1991. It also reflects the decision made by the FAO to discontinue providing a Director-General's report, and to provide information previously contained in that report by means of conventional notes to the Account. These changes are designed to make the Statement more useful to readers.

Audit Approach

4. 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 UNDP; whether income and expenditure were properly classified and recorded in accordance with the instructions of the UNDP, together with the Financial Regulations of the FAO; and whether the Status of Funds Statement presented fairly the financial position at 31 December 1991.

5. 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 which are 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 Statement accurately reflected the Organization's accounting records.

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

7. My audit of the Statements had regard to the work of the Office of Internal Audit, Inspection and Management Control in the field and at the FAO Headquarters, particularly in respect of a number of field visits. In 1990-91 I was also able to take considerable assurance from their work for the Administration 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.

Overall Results

8. My examination revealed a number of matters which have all been dealt with by means of corrections made to the final Account. As a result of the meticulous checks of the accounting entries and the remedial action taken by the Organization to correct problems with the computerised accounting system, I conclude that there are no weaknesses or errors material to the accuracy, completeness and validity of the audited Financial Statements as a whole. Accordingly, I have placed an unqualified opinion on the Statements as at 31 December 1991, as explained in more detail in paragraphs 70 to 73.

Content of the Report

9. It is my policy to follow up the response made to previous Reports over an appropriate cycle. My observations on the action taken by the FAO in response to the recommendations and observations in my Report on the FAO Status of Funds Statement for UNDP 1988-89 are set out in paragraphs 13 to 16.

10. I have also continued with a programme of examinations as 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 way the FAO and the UNDP sought to improve the utilization of vessels available to developing countries for fisheries research, development and

training. A summary of the main findings and recommendations arising from this review are reported at paragraphs 17 to 23. The detailed findings of the review are reported at paragraphs 28 to 48.

11. A summary of main findings and recommendations arising from my financial audit and other matters are reported at paragraphs 24 to 27. The detailed findings of the examination are reported at paragraphs 49 to 98.

12. My observations on all the matters contained in this Report were communicated to the FAO. The Organization has confirmed the facts on which my observations and conclusions are based and 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 FAO Secretariat. None of these matters affected my audit opinion on the Status of Funds Statement and Schedules for the biennium.

ACTION TAKEN IN RESPONSE TO PREVIOUS REPORTS

General

13. 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 provide their own response to my recommendations. I have deferred my follow-up review 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 a number of other matters raised in that Report.

Project Evaluations 1986-87 and 1988-89

14. My 1988-89 Report reiterated observations I made in an earlier Report on the importance I attach to the Organization maintaining a strong and independent evaluation service, to assess the design, implementation and effectiveness of projects. I recommended that procedures could be enhanced to ensure that the results of evaluation missions are widely disseminated throughout the Organization. In addition to the well established feedback through the Field Programme Committee and the high level biennial Review of Field Programmes, I welcome the Organization's decision to produce each year a synthesis of project evaluation findings. This is being produced primarily for the benefit of staff in the technical and operational Units. The first of these documents was issued in February 1992 and covered 84 UNDP funded projects evaluated in 1990. The 1991 document is expected to be issued shortly.

Financial Matters 1988-89

15. I am pleased to note that there were some improvements to the biennium-end review of unliquidated obligations. My comments on the outcome of the audit of unliquidated obligations for 1990-91, together with the adequacy of the reconciliation of the Organization's accounts with the UNDP Headquarter's records, are at paragraphs 76 to 84.

16. I welcome the improvements that continue to be made in the inventory control system and procedures, on which I commented in my last two Reports. 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 1990-91 are at paragraphs 89 to 93.

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

MANAGEMENT MATTERS

Fisheries Vessels used for Research, Development and Training

17. Since 1973 the FAO and the UNDP have co-operated in two projects, costing \$20 million, to improve the utilization of vessels available to developing countries for fisheries research, development and training. The first project the "Fisheries Vessels Pool Agreement" provided for the FAO to manage and operate a fleet of fishing vessels on behalf of the UNDP. The second project, the "Co-operative Use of Vessels for Fisheries Research, Development and Training", required the FAO to establish a computerised database of underutilized vessels in the world fleet.

18. During 1991 my staff reviewed the Organization's involvement in these two projects, and examined the extent to which they have met their objectives and whether there are any lessons arising from their operation which can be applied in future.

On the Fisheries Vessels Pool Agreement

19. The maximum number of vessels managed by the FAO under the Fisheries Vessels Pool Agreement was 23. My staff found that some vessels were used successfully and profitably on various projects, but that the Organization's efforts to improve the utilization rate did not have the desired results. Between 1980 and 1986 the maximum number chartered in any one year did not exceed 10 vessels. In 1982 the UNDP and the Organization agreed to phase out the Fisheries Vessels Pool Agreement as the vessels were approaching the end of their economic life and many countries were acquiring their own fishing vessels.

20. The Organization sold 18 vessels, from which proceeds of \$2.8 million were realised. The money was used to cover the operational costs of the fleet. A further four vessels were transferred at no cost to various government bodies. One vessel is still operated by the FAO and has yet to be sold. The Organization followed standard procedures for selling surplus equipment and these generally worked well.

21. However, in one case it was unclear whether the price paid reflected a reasonable valuation of the vessel. I recommend that in future the Organization always seeks independent valuations of assets which are expected to realise over \$25,000. In a second case sales receipts were affected by an adverse movement in the exchange rates. I recommend that, where practicable, all sales should be negotiated in a hard currency at a pre-determined exchange rate (paragraphs 40 to 41).

On the Cooperative Use of Vessels Scheme

22. As intended, the Organization has established a database containing information on the global fleet for fisheries and oceanographic research, hydrographic surveys or training. However,

there are some doubts on the assessment of suitability of some of these vessels for research purposes. There have been relatively few enquiries for available vessels and only three charters have resulted.

23. I note that the Organization is investigating ways of improving the quality of the database and increasing the number of charters arranged. I welcome this because, in my view, for the Cooperative Scheme to succeed it is important that vessel details and availability are kept up to date otherwise the credibility of the Scheme will be undermined. I also recommend that the Organization investigates the potential for the commercial exploitation of the database (paragraph 48).

FINANCIAL AND OTHER MATTERS

24. The Organization's lengthy and meticulous check of the accounting records, together with the subsequent action taken, resolved many of the critical problems that had arisen with the implementation of the new computerised accounting system, and which had been identified by my staff in an interim management letter. The integrity of the accounting records was restored and backlogs in processing field imprest accounts, bank reconciliation work and suspense account balances were eliminated. This remedial action involved considerable staff resources, including the temporary redeployment of the Organization's staff to the problem areas and the engagement of a firm of consultants to co-ordinate the implementation of a comprehensive action plan.

25. The extensive testing performed by my staff, and additional work in areas assessed as presenting higher risks of errors, was carried out with satisfactory results, although some audit adjustments to the figures in the Statement were necessary. I also examined the figures shown on the face of the Statement, Schedules and accompanying Notes. These did not reveal any significant or unexplained variations from the figures for the previous biennium, or any differences inconsistent with my knowledge of the Organization's planned activities on behalf of the UNDP.

26. 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 audited Statement as a whole. I was therefore able to certify that the Statement of the Status of Funds was fairly presented at 31 December 1991.

27. My observations on a number of significant matters arising from the financial audit, together with other matters, are shown at paragraphs 49 to 98. The main recommendations are summarised below:

- (a) I am pleased to note that the Organization conducted a series of reviews of unliquidated obligations. However, there is scope to strengthen these procedures to avoid the need for audit adjustments in future, and I recommend that extra controls are programmed into the computerised accounting system (paragraphs 76 to 78).

- (b) Reconciliations of the accounting records of the FAO with those maintained by the UNDP were not completed in a timely manner in 1990-91, mainly due to the higher priority work arising from the difficulties on implementation of a new computerised accounting system. I recommend these important reconciliations are conducted promptly in future (paragraphs 83 to 84).
- (c) Audit adjustments amounting to \$1.5 million to the cash balance held on behalf of the UNDP were necessary. To avoid a recurrence of such matters I recommend there should be closer management scrutiny of the draft Accounts and supporting working papers (paragraphs 85 to 86).
- (d) A review of inventory records revealed that their accuracy is affected by delays in the confirmation from Field Offices of receipts or disposals and that the FAO manual sections on inventory require updating. I recommend that the status of \$4.3 million of inventory classified as "transferred to governments" be reviewed (paragraphs 89 to 93).
- (e) I note that a new Agreement, updating the general terms and conditions of assistance to the FAO from the UNDP, has not yet been signed. I trust that the latest text, with some amendments and adjustments proposed by the FAO, currently being considered by the UNDP will shortly be finalised and signed (paragraphs 95 to 98).

DETAILED FINDINGS ON MANAGEMENT MATTERS

Fisheries Vessels Used for Research and Development

Introduction

28. Since 1973 the FAO and the UNDP have co-operated in two projects, costing \$20 million, to improve the utilization of vessels available to developing countries for fisheries research, development and training.

29. The first project the "Fisheries Vessels Pool Agreement" (hereinafter referred to as the Pool Agreement) commenced in 1973 and provided for the FAO to act on behalf of the UNDP in managing and operating a fleet of their fishing vessels. The vessels were chartered to specific fisheries development projects in developing countries. In 1982 the FAO and the UNDP decided to phase out the Pool Agreement by 1990 and sell the vessels.

30. In 1987, the second project, the "Co-operative Use of Vessels for Fisheries Research, Development and Training" (hereinafter referred to as the Co-operative Scheme) was established. This successor project required the FAO to build up a computerised database of suitable vessels in the world fleet, which could be made available to institutions in countries lacking their own specialised ships or in need of additional vessels. The build up of the database is a joint undertaking with the Inter-Governmental Oceanographic Commission.

31. My staff examined the extent to which these projects had met their objectives and whether there are any lessons arising from their operation which can be applied in future.

Objectives of the Projects

32. The long term objectives of these projects, in providing assistance for fisheries development, are similar. Under the Pool Agreement the objective was to enhance fishing research and development projects by making ships available at an affordable cost and thereby improving the utilization of the UNDP owned fleet. The successor Co-operative Scheme also seeks to support fishing research and development. However, rather than operating vessels for charter, the project was designed to make use of surplus ships from the world fleet by setting up a database of owners willing to make their under-utilised vessels available to interested governments, United Nations bodies and other institutions.

The Pool Agreement

33. The Joint Inspection Unit (JIU) of the United Nations reported in 1972 on the management of shipping in fisheries development projects. The JIU recommended that, to secure greater flexibility in the use of vessels and more efficient use of funds, the FAO should take on the fleet management responsibilities for the 68 vessels owned by the UNDP. These vessels had previously been bought by the UNDP to meet the needs of individual projects. After 1973, as the projects run by the UNDP were terminated, the vessels

which were not required were transferred at no cost to the FAO. In 1974 the UNDP transferred 17 vessels to the FAO and by 1980 the fleet managed by the FAO comprised 23 vessels, which had originally cost the UNDP some \$8 million to purchase. The remaining UNDP vessels were transferred to governments of countries where projects had been mounted or, in some cases, cancelled.

34. Under the Pool Agreement the FAO chartered vessels to projects for predetermined periods, at charges using a formula based on the replacement value and calculated to cover the costs of depreciation, maintenance, refit, transfer and lay-up charges, together with fleet management personnel costs. For most years in which the project operated expenditure exceeded receipts and these costs were met by the UNDP. In the years when receipts were greater than expenditure the UNDP received the excess income.

35. Although some charters were successful and profitable the number of charters over the period 1973 to 1990 indicates that many of the vessels lay idle for significant periods. In 1975 all 17 ships produced some charter income. However, between 1980 and 1986, the number chartered in any one year never rose above 10 vessels. From 1987 charter income was derived from only three vessels. The Organization, in an effort to improve the utilization rate, attempted to arrange some charters to private and commercial users of fishing vessels. However, this initiative did not have the desired results.

36. My staff reviewed the value of the Pool Agreement by examining individual reports for fisheries projects, which included comment on the use of vessels. My staff found that in most cases vessels had been successfully used. However there were some exceptions. In a major project carried out in East Africa the vessel chartered could not trawl to the depths scheduled in the project document due to adverse sea conditions. There were also other local trawling difficulties, and weather conditions hampered the research. In another project which made use of two vessels, the length of time the vessels were at sea was less than expected due to unforeseen breakdowns and slow delivery of spare parts. In addition one of the vessels was found to be unsuitable for conversion to the revised requirements specified towards the end of the project.

37. In 1982 the UNDP and the Organization agreed to phase out the Pool Agreement because many of the vessels were approaching the end of their economic life and could only be replaced at great expense. Furthermore many developing countries had since 1973 acquired their own national vessels to carry out marine science, fisheries research and related development activities, such that there was a reduced requirement for the Pool Agreement fleet to be maintained.

38. One of the management objectives of the Organization under the Pool Agreement was that the fleet of fisheries project vessels should be maintained and operated at minimum cost consistent with operational efficiency. Table 1 shows that over the period to 31 December 1991 a gross operational deficit of \$2.6 million was incurred, which included the costs of refitting certain vessels at the outset of the Pool Agreement. After taking account, as agreed in advance with the UNDP, of proceeds from the sale of vessels there was a small surplus of \$0.2 million.

Table 1: Pool Agreement Income and Expenditure 1973-1992

	\$ Million
Income from Chartering Vessels	16.4
Expenditure	19.0
Gross Deficit	2.6
Proceeds from Sale of Vessels	2.8
Net Surplus	0.2

Statement I of the UNDP Financial Statements includes miscellaneous income of \$743,000 resulting from the sale of two vessels during the 1990-91 biennium.

39. As the vessels in the pool were owned by the UNDP, permission to sell each vessel was required before the FAO could instigate sales procedures. Once permission was granted by the UNDP the Organization's normal procedures for selling surplus equipment were followed. Tenders for each ship were sought by placing advertisements in newspapers and journals. Bids were received and opened by Internal Audit, in accordance with the Organization's procedures governing tenders for purchases and sales of equipment. In total 18 vessels were sold, generally to the highest bidder. A further four vessels were transferred, at no cost, to various government bodies. At 31 March 1992 only one pool vessel is still held by the FAO and has yet to be sold.

40. My staff found that the sales procedures generally worked well and that the FAO took all the necessary steps to ensure receipts were maximised. Problems were only encountered in two cases. In the first case, the sale of the vessel Jurong, three prospective buyers dropped out after the tender competition. One of the buyers lost a non-refundable deposit, though the others did not make any payment. The original highest bid was for \$319,829 and was made in October 1990. The final winning bid was for \$251,000 and was paid in September 1991. As no independent valuation of the vessel had been made my staff could not determine whether the Organization obtained maximum value for money by proceeding with the sale at a lower price. The Organization informed my staff that, whilst the procedures do not necessarily require individual items for sale to be independently valued, valuations were carried out to determine the price for the sale of most pool vessels. I recommend where sales income is likely to exceed a certain threshold, say \$25,000, independent valuations should always be sought to help determine the selling price. The Organization informed me that for the disposal of high value second-hand equipment independent valuations are now usually undertaken.

41. The second case, the sale of the vessel Rastrelliger, illustrates the difficulty of negotiating a sales price in a local currency. The highest bid accepted allowed for payment of this amount to be made in a local currency in accordance with a tender clause which provided that payment in local currency could be made if the amount was equal to the dollar equivalent set at the United Nations rate of exchange on the closing day for tenders. A significant adverse movement in the exchange rate occurred between

the tender date and the day payment was made and, following negotiations, the UNDP accepted that the sale proceeds would be less than expected at the time of bidding for the vessel. As a result there was a shortfall in receipts of \$242,000 on the sale price in dollars. I recommend that all sales of the Organization's equipment should be not only negotiated, but whenever practicable paid in a hard currency, such as the US dollar. The payment should be made at a pre-determined exchange rate, although I recognise that difficulties may arise if a bidder withdraws in the case of a significant devaluation in the local currency.

The Co-operative Scheme

42. Research carried out by the Organization in 1982 indicated that the most efficient way of providing continuing support for fisheries development projects to countries which do not operate their own fleet was to promote the co-operative use of vessels. The Organization therefore decided, in conjunction with the UNDP, to develop a global register of available research vessels which listed their design characteristics, on-board equipment and technical capabilities. The project involved the development and operation of a computerised database; preparing model contracts and guidelines for the charter or lease of vessels; and mediating between ship owners and prospective users in drawing up initial contracts and agreements.

43. From my staff's examination of the available data the Co-operative Scheme has not been as successful as envisaged at the planning stage. Nearly \$400,000 has been spent developing the database, which contains information on about 50 per cent of the estimated global fleet of fishing research vessels 15 metres in length and above. There are currently 603 vessels on the database, only half of which are suitable for some form of fisheries research. The remainder are for oceanographic research, hydrographic surveys or training.

44. The FAO has received 65 requests for help in locating a vessel for charter. In 23 cases a suitable vessel was found on the database. This led to five cases where contract terms were negotiated. In only three of these cases were firm contracts and charters arranged. The Organization updates the demand for vessels from reports of meetings of fisheries bodies and the outcome of missions by staff and consultants. The Organization consider that, on the basis of experience to date, it is too early to mount a comprehensive exercise to assess the continuing world wide demand for vessels or such a database. The Organization informed me that they believe there is a demand for information and that there is currently an upswing in plans for donor nations to supply more research vessels to developing countries.

45. The low success rate in matching supply and demand is to a large extent beyond the control of the FAO. The list of difficulties include unseaworthy vessels and a mismatch between the requirements of suppliers and potential charterers. For the Co-operative Scheme to succeed it is important that vessel details and availability are kept up to date since otherwise the credibility of the scheme will be undermined.

46. A recent consultant's report commissioned by the FAO advocated that the Organization should monitor more closely the prospects for matching an available vessel with a potential charterer. The consultant recommended that the FAO should consider approaching both parties involved in a charter to gain an appreciation of how successful the charter had been or why negotiations had broken down. I consider this information could be included on the database, thereby enhancing its qualitative content.

47. The Organization has taken steps to ensure that the Co-operative Scheme is brought to the attention of those who could make use of it. Project officers have a booklet about the scheme and are also aware of its existence from project reporting documents. An FAO promotional leaflet on the Co-operative Scheme was sent out to the UNDP Resident Representatives around the world in 1988. Further publicity was provided at that time by an article in Fishing News International. The current budget does not contain any provision for publicity, other than providing a leaflet on request, but I note that a recent internal review of the progress on the Co-operative Scheme included a recommendation that more publicity is required, in order to increase the potential number of requests for details of vessels available for charter.

48. The consultant's report also suggested that a token charge could be levied on potential charterers to help offset administrative costs. Though it may be considered inappropriate to charge fisheries projects operated by the FAO or other United Nations bodies, a charge could be applied to all other requests. Such a policy would be in line with the charges levied on information supplied from other databases operated by the FAO. In addition, I recommend that the FAO assesses whether the database could be commercially exploited, for instance by selling parts of it to the suppliers of fishing equipment.

DETAILED FINDINGS ON FINANCIAL MATTERS

Implementation of a New Computerised Accounting System and External Audit of 1990-91 Accounts

Introduction

49. In 1990 the FAO implemented the final phases of a large and complex computer project. The project, known as FINSYS/PERSYS, was designed to upgrade and integrate its financial and personnel systems, enhance the timeliness and quality of management information and improve productivity.

50. 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.

51. The project was conceived in the early 1980s and the initial feasibility study was undertaken in 1984. The FAO envisaged that the project implementation would span three years and be carried out in three phases. Phase I involved primarily payroll activities; Phase II was mainly concerned with treasury and accounting processes; and Phase III concerned ancillary segments of the system such as travel. The FAO initially expected that all three phases of the project would be implemented by the end of 1988. However, delays in finalising the system design prevented implementation of the final phases until February 1990.

52. In addition to the delays the project suffered serious 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 acquisition of a new mainframe computer". This concerted management action resolved the critical problems with the FINSYS/PERSYS accounting system.

53. FINSYS/PERSYS is an integrated accounting system used to process all the Organization's financial transactions. At paragraphs 54 to 69 I set out some of the findings which directly bear on the maintenance of financial records in respect of funds provided by the UNDP.

System Implementation

54. The Organization experienced considerable technical difficulties on the implementation of the later phases of the system. It is clear from project status reports that significant units for Phases II and III were not ready to be implemented in early 1990 and that other preparations were at best only partially complete. Weaknesses identified included:

- (a) insufficient testing of the new systems;
- (b) incomplete user documentation and guidance material regarding the operation of the new financial systems;
- (c) a generally low level of training provided to the staff of the FAO;
- (d) uncertainty regarding the capacity of the computer hardware to cope with the demands of FINSYS/PERSYS;
- (e) insufficient computer programmers to maintain a system as large and complex as FINSYS/PERSYS; and
- (f) a lack of fully developed controls over the security of access to the computer systems.

55. My staff have been informed that the Organization knew there were some risks attached to FINSYS/PERSYS going live but concluded that the system had to be implemented at the start of the 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.

Problems Experienced on Implementation

56. An indication of the scale of the implementation problems is evident from the number of problem reports and system change requests lodged during the period April 1990 to June 1991. These technical difficulties affected all the FAO funds, not just those projects funded by the UNDP.

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
Note: Data refers to all activities funded by the FAO. Separate data is not maintained for the UNDP funds.			

The problems caused 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 as being a priority for the preparation of the all the Organization's biennial Financial Statements. Some of the most significant problems experienced in 1990-91 are outlined below.

Suspense Accounts

57. Under FINSYS/PERSYS the majority of transactions are accounted for automatically. However, if the information input to the computer is incomplete, the system may not be able to identify the appropriate general ledger account code. Such transactions are posted to suspense and clearing accounts. By the end of July 1991 the volume and value of postings to suspense or similar clearance accounts reached the unprecedented level of almost \$400 million and involved over 160 different general ledger accounting codes. The large amounts in suspense meant at the time that expenditure on individual UNDP projects executed by the FAO was incompletely recorded. To overcome these difficulties a technique of netting-off associated income and expenditure suspense accounts was widely employed in the production of the Organization's unaudited interim UNDP Statement for 1990.

Processing Backlogs

58. The system problems experienced across the Organization, combined with the need for staff to become fully conversant with the new requirements and procedures, led to the build up of large processing backlogs, as set out in Table 3 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
Note: Data refers to all activities funded by the FAO. Separate data is not maintained for the UNDP funds.	

Such 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 backlogs in processing field imprest account returns and inter-office vouchers meant that funds spent in the field on UNDP projects were not properly recorded in the Organization's main books of account and that financial reports for projects derived from FINSYS/PERSYS significantly understated expenditures.

System Imbalances

59. 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 in the general ledger. 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. 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 which indicated the presence of incomplete and 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.
- (d) Fourth, the total amounts recorded as income or expenditure in the general ledger differed from the corresponding amounts disclosed in other financial reports.
- (e) Fifth, some computerised calculations failed to work correctly and resulted in erroneous calculations of such items as programme support costs, interest on project cash balances and distributions of pooled expenses. I am pleased to note that these problems were resolved successfully before the final closure of the 1990-91 Accounts.

Data Corrections

60. 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. My examination revealed that the nature of problems requiring correction and the outcome of the work performed was often inadequately documented. There was also a 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. The Organization took appropriate action in the latter half of 1991 to remedy the weaknesses identified by my staff.

Report Facilities

61. FINSYS/PERSYS was designed as an on-line system and therefore allowed 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.

62. As a consequence of the lack of comprehensive financial reports users faced extreme difficulties. Throughout the biennium users complained that the information displayed 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 which provide details of UNDP project expenditures, were not available until September 1990, but were considered vital to the management and control of expenditure. The absence of these reports generated a number of complaints as it meant that users could not readily identify project expenditures and posed major problems for staff operating in the field who did not have on-line access to FINSYS/PERSYS.

Closure of Accounting Period

63. 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.

64. Some of the problems arose from the way FINSYS/PERSYS was designed. Unlike the previous accounting system of the FAO FINSYS/PERSYS cannot safely facilitate the operation of two open accounting periods due to the high risk of mis-postings between periods. The closure of the interim 1990 accounts therefore proved extremely complicated. For instance, some errors arose when 1991 transactions were posted to the 1990 accounting period. The complete resolution of these and associated errors took several months.

Interim External Audit

65. 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. Two further reviews were also undertaken in December 1990 and July 1991. The second of these reviews 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. I was particularly concerned to note that insufficient remedial action was being taken to restore the integrity and accuracy of accounting records. The results of this interim audit and the potential implications for my audit certificates were reported to the Organization in July 1991 and then set out in an interim management letter to the Director-General.

Remedial Action

66. As the difficulties increased and complaints became stronger and more frequent, including queries raised by member governments, and other United Nations agencies, it became clear that urgent action needed to be taken if a complete systems failure was to be averted. 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. 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 for remedial action.

67. A firm of consultants was engaged to co-ordinate the implementation of the action plan. The resources required 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 temporary staff and authorization of considerable overtime.
- (d) Re-assessment of annual leave plans and curtailment of leave of key members of the Administration and Finance Department.
- (e) Use of consultants to provide continuing expert advice and guidance. 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.

68. To clear the vast sums held in suspense accounts, eight teams of staff were organised and each assigned a specific number of accounts to review. 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 across all the Organization's Accounts amounting to over \$35 million.

Future Developments

69. In view of the enormous problems experienced in 1990-91 it is necessary in my opinion for the FAO to conduct a comprehensive post-implementation review of FINSYS/PERSYS. As part of this review any cumbersome or inefficient procedures can be eliminated

and potential benefits identified so that they can be maximised in the future. I am pleased to note that a functional review of FINCYS/PERSYS has recently been commenced and that this will address many key areas. However, several of the underlying system problems that gave rise to the difficulties experienced in 1990-91 are still unresolved. The management of the FAO must therefore be alert for any signs that problems are building up once again in 1992-93, such that a further, and costly, emergency exercise would be necessary to produce the Financial Statements. I have recommended to the FAO a number of areas that should receive specific attention and am pleased to note the progress the Organization is making.

External Audit of the UNDP Financial Statements 1990-91

70. The comprehensive remedial action taken by the Organization involving a meticulous check of accounting entries, as set out in paragraphs 66 to 68 above, successfully addressed the critical problem areas raised in the interim management letter of August 1991. My staff carried out extensive testing and additional work in areas assessed as presenting higher risks of errors.

71. I examined the figures shown on the face of the Statement, Schedules and accompanying Notes. These did not reveal any significant or unexplained variations from the figures for previous biennium; nor any differences inconsistent with my knowledge of planned activities. However my examination of the UNDP Financial Statements 1990-91 identified a number of problems arising either directly or indirectly, from the difficulties experienced with the new computer system during the biennium. Some of the errors detected were in my view material and I therefore requested adjustments to the Statement and Schedules which were presented to me for audit on 20 May 1992. As a result of the audit adjustments I was able to certify that the Statement was fairly presented as at 31 December 1991.

72. It is apparent however, from my examination, that in 1990-91 the new system required excessive effort to maintain and that the production of a satisfactory Statement for the UNDP involved a resource intensive exercise that should not be necessary with an automated accounting system. It is clear to me that without the extraordinary measures taken by the FAO it would not have been possible to give an unqualified opinion on the Statement. 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 Accounts.

73. A large number of transactions checked by my staff were found to be adjustments entered by the Organization's 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. A number of other matters arising from my audit are referred to below.

Programme Support Costs

74. The FAO charges the UNDP programme support costs on the basis of total expenditures on the projects which it executes. Generally the rate charged is equivalent to 13 per cent of disbursements. The charge is intended to compensate the FAO for the administrative overheads incurred in the execution of the projects and the income is transferred to the FAO Support Cost Account.

75. Prior to the introduction of FINSYS/PERSYS programme support costs due to the FAO were calculated manually. This procedure was automated under FINSYS/PERSYS but, due to problems with the completeness of the underlying expenditure data, together with some computer programming errors, it proved necessary to attempt the calculation several times. As a result there were considerable delays in finalising the calculation of Programme Support Costs and bringing them to account. In my view it is important that the Organization routinely monitors and reviews support costs in respect of UNDP projects and I am pleased to note that steps have now been taken to ensure that such costs are calculated and brought to account at monthly intervals.

Unliquidated Obligations

76. Financial commitments which are defined as valid liabilities at the end of the biennium, but which have not been disbursed, are classed as unliquidated obligations. It is essential that the Organization regularly reviews unliquidated obligations and that those found to be invalid or no longer required are cancelled. The absence of reliable financial reports and listings for most of 1990 hindered an effective review and my staff concluded that unliquidated obligations reported in the interim Statement to the UNDP were materially overstated.

77. I am pleased to note that in response to the interim management letter the Organization conducted extensive reviews of all unliquidated obligations, including a review at the end of October 1991, in addition to the biennium end review. I note that the level of unliquidated obligations at the end of the biennium is considerably lower than in the previous biennium. Nevertheless, my staff found a number of fellowships for study not due to commence until 1992, but which were charged as unliquidated obligations in 1990-91. At my staff's request the FAO carried out a further review of unliquidated obligations relating to fellowships to confirm the validity of the balances disclosed. As a result of this review my staff sought an audit adjustment of \$544,933 to cancel a number of invalid items related to fellowships.

78. I believe there is scope for further improving the review procedures in this area. The computerised database already contains the information to indicate which unliquidated obligations ought not to be accrued as expenditure. I recommend that extra controls are programmed into the system to prevent this in future. I also consider that, in order to strengthen review procedures in future biennia, the Organization should maintain the policy adopted in 1991 of conducting a series of reviews in the second year of each biennium.

Prior Biennium Unliquidated Obligations

79. A number of obligations were deemed invalid at 31 December 1989. At my staff's request, they were excluded from the 1988-89 audited Financial Statements. Under normal circumstances, such documents would have been cancelled from the Organization's records soon after the close of the books of account so that detailed project records remained in line with the audited Financial Statements. However, implementation problems with the new computerised accounting system, which I have described in detail in paragraphs 56 to 64, contributed to the Organization's inability to cancel these invalid obligations. The Organization informed me that many of the documents were subject to adjustment as a result of corrections to computer data in FINSYS/PERSYS described in paragraph 60.

80. The unliquidated obligations declared invalid in 1988-89 amounted to approximately \$2.4 million and consisted of 251 separate items. The cancellation of these obligations, which could only be reflected by the UNDP in 1990, was recorded by the FAO in 1990 as a reduction of the opening balance of the Operating Fund.

81. During 1990-91 a number of transactions had been set against the commitments. Of the total amount involved, \$1.5 million had been disbursed and \$0.6 million surrendered. These items were subsequently reflected by adjusting Schedules 1 and 2 of the final audited Financial Statement. The remaining \$0.3 million, which remained as an obligation at the end of the biennium, was similarly excluded from accounts payable.

82. The audited Financial Statements for both 1988-89 and 1990-91, on which I express my opinion, correctly reported the nature and amount of these adjustments. The detailed project records for those periods, however, were not adjusted. The \$1.5 million disbursements was shown as expenditure in 1989 rather than 1990 or 1991. The \$0.6 million surrendered was shown as a reduction to expenditure in 1990 or 1991 rather than 1989. The Organization's detailed project Financial Statements, which consolidate prior years' expenditure into one figure, are however, no longer affected by these differences in timing. The \$0.3 million was recorded as expenditure in 1989 and while this has so far not been changed, the Organization has undertaken to make the appropriate adjustments to project records. I have considered the implications on my audit opinion of the Organization's failure to take the most appropriate accounting action but am satisfied, on balance, that in view of the separate disclosure made in respect of the items concerned a qualified audit opinion is not required.

Reconciliation of the FAO Accounts with the UNDP Headquarters Records

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

84. The timely reconciliation of the monthly Operating Fund Statement was hindered by many of the difficulties during the implementation of the FINSYS/PERSYS system. The Organization informed me it was unable to complete the input of inter-office vouchers containing payments made on behalf of the FAO by the UNDP Field Offices, a major requirement for the reconciliation of the Operating Fund Statement. I recommend the Organization ensures that in future such reconciliations are completed more promptly following receipt of the monthly statement from the UNDP. This will ensure that any queries regarding reconciling items are raised in a timely manner and thereby facilitate improved management control.

Cash at Bank

85. My examination of the Organization's cash assets identified an amount of \$529,700 in respect of accrued interest that had not been correctly brought to account. The Organization adjusted the audited Financial Statements to rectify this understatement.

86. My review of the UNDP bank reconciliation work identified a long outstanding reconciling item of \$1 million that was recorded by the FAO as a payment in December 1991. On further investigation the FAO discovered that the payment related to the return of excess cash holdings to the UNDP Headquarters but that, due to an administrative oversight, the payment instructions had not reached the Organization's bankers. The payment was eventually effected in April 1992 and I therefore requested the FAO to exclude this item from the 1990-91 audited Financial Statements and this has been done. To avoid a recurrence of such matters closer management scrutiny is recommended.

Early Closure of Field Accounts

87. As noted in paragraphs 63 and 64 FINSYS/PERSYS could not safely accommodate the operation of two open accounting periods due to the high risk of mis-postings between periods. In order therefore to close the 1990-91 Accounts and to accelerate the closure process itself, the FAO secured the co-operation of the UNDP in imposing an early cut-off date for closure of field imprest returns. Field Offices were instructed to effect all payments in respect of the activities of the FAO by 15 December 1991 and to send an extract of the summary record of inter-office vouchers by facsimile to the FAO Rome Headquarters. Any payment authorizations in respect of the activities of the FAO received by the UNDP after the December deadline were to be effected in January 1992.

88. As explained in note 3 to the UNDP Financial Statements one impact of this early closure was that \$4.964 million of 1990-91 payments recorded as inter-office vouchers were not processed by the FAO. As the balance of the Organization's Operating Fund is aligned with the balance maintained independently by the UNDP, the amount concerned is included as a reconciling item posted to a sundry suspense account.

Inventory Control System

89. An inventory of non-expendable UNDP equipment is maintained at the FAO Headquarters. At 31 December 1991, the inventory was valued at \$113.4 million. Items are recorded at cost price and included in expenditure for the biennium in which they were purchased. The value of equipment is referred to in Note 6 to the Accounts. On termination of a UNDP project, title to the equipment purchased by the FAO is usually transferred to the government concerned to provide continued support for the project or programme.

90. The inventory valuation at 31 December 1991 included \$4.3 million for equipment items which had been excluded from the inventory valuation of \$105 million made in the Director-General's report on the UNDP Status of Funds Statement 1988-89. This adjustment was made because of the continuing delays over the last 10 years in Headquarters receiving confirmation from Field Offices that the equipment had been transferred to governments.

91. These shortcomings in the inventory records have no material impact on the UNDP Status of Funds Statements. However, in order to enhance the accuracy of equipment records and improve accountability, I recommend that the Organization continue to hasten Field Office returns of inventory reports. These reports should include clarification of the status of items transferred to governments on completion of projects.

92. For UNDP Projects, 15 per cent of year end inventory Reports for 1989 and 21 per cent for 1990 were outstanding at 27 April 1992. These outstanding returns indicate that implementation of the new computerised accounting system in 1990 has facilitated more effective follow-up and control of year end inventory returns. Under the previous computerised system outstanding returns in the mid-1980s were of the order of 60 per cent per annum.

93. During 1990-91 Internal Audit carried out work on inventory records. In two field projects they examined, difficulties were experienced in verifying local inventory records. This has a consequent affect on records held in Headquarters, which are reliant upon accurate and timely information from Field Offices.

OTHER MATTERS

Losses etc

94. I have examined with satisfactory results, details of compensation payments, ex-gratia payments, losses and writes-off to the value of \$870,248 submitted to me by the Director-General with the UNDP Status of Funds Statement in accordance with the Financial Regulations. I am satisfied with the information and explanations which I have obtained about these cases and I have no observations to make. No cases of fraud or presumptive fraud have been reported to me.

Standard Basic Executing Agency Agreement

95. The Financial Regulations of the UNDP stipulate that agreements, specifying the general terms and conditions of assistance from the UNDP, should be made between the UNDP and executing agencies. The FAO has carried out its activities, on behalf of the UNDP, under the terms of an agreement reached in 1959 with the United Nations Special Fund, the predecessor of the UNDP. In the light of developments affecting the operational activities of the United Nations, the UNDP has subsequently developed a Standard Basic Executing Agency Agreement (hereinafter referred to as the Agreement), in order to update their formal relationship with all executing agencies.

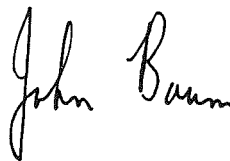
96. In June 1989 the Governing Council of the UNDP requested its Administrator to enter into negotiations with executing agencies that had not at that time signed an Agreement. The Administrator was requested to finalise outstanding Agreements before the end of 1989 and, together with the executing agencies, "... to pay greater attention to the issue of accountability".

97. In 1991 the United Nations Board of Auditors noted that an Agreement between the FAO and the UNDP, together with Agreements with other agencies and bodies, had not been signed. Subsequently, the FAO Conference 1991 was informed that the FAO was negotiating with the UNDP and that an Agreement would be signed as soon as feasible. In December 1991 the United Nations General Assembly urged "... the UNDP and designated executing agencies expeditiously to conclude arrangements which would provide for appropriate accountability".

98. I note that an Agreement has not yet been signed but that a text, with some amendments and adjustments prepared by the FAO, is currently being considered by the UNDP. The Organization informed my staff that the delay in finalising the Agreement was mainly due to the need to take account of the outcome of the negotiations and discussions on the new Support Cost Successor Arrangements, which came into effect on 1 January 1992. I look forward to the Organization concluding an Agreement with the UNDP which will formalise the already existing co-operation between the two bodies in the execution of development activities funded by the UNDP.

Acknowledgement

99. 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.

A handwritten signature in dark ink, appearing to read 'John Bourn'. The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

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

8 September 1992

STATEMENT OF STATUS OF FUNDS ADVANCED TO THE FOOD AND AGRICULTURE
ORGANIZATION BY UNITED NATIONS DEVELOPMENT PROGRAMME 1990-91

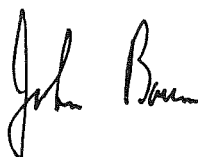
OPINION OF THE EXTERNAL AUDITOR

To: The Conference of the Food and Agriculture Organization

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

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



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

31/1 July 1992

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

STATEMENT I

Status of Funds as at 31 December 1991
(in US dollars)

Operating Fund	1990-1991	1988-1989
Balance at 1 January	(28,830,638)	(17,344,576)
Add: Cash drawings from UNDP [Note 2]	201,294,784	165,298,886
I O V's [Note 2]	216,677,367	192,921,519
Other charges/credit (net)	(4,988,463)	(5,092,201)
Miscellaneous income and exchange adjustments (net) [Note 3]	838,128	(704,013)
Miscellaneous items refunded to UNDP (net) [Note 3]	(108,730)	
	413,713,086	352,479,474
Less: Expenditure	384,882,448	335,134,898
For projects		
Disbursements [Sch. 1]	333,183,927	294,462,137
Unliquidated obligations [Sch. 1]	21,438,712	27,914,075
For programme support costs [Sch. 1] [Note 4]	45,725,612	41,589,324
	400,348,251	363,965,536
Balance at 31 December	(15,465,803)	(28,830,638)
Represented by:	=====	=====
Cash at banks, on hand and in-transit	14,684,530	8,075,041
Accounts receivable [Note 5]	17,209,785	7,275,335
	31,894,315	15,350,376
Less: Accounts payable [Note 5]	25,921,406	16,266,939
Unliquidated obligations [Sch. 1]	21,438,712	27,914,075
	47,360,118	44,181,014
	(15,465,803)	(28,830,638)
	=====	=====

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

Frederic A. Heim
Frederic A. Heim
Director, Financial Services Division

APPROVED:

Edouard Saouma
Edouard Saouma
Director General

20 May 1992

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Page 27

UNITED NATIONS DEVELOPMENT PROGRAMME

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

Expenditure by Source of Funds
for the biennium ended 31 December 1991
(in US dollars)

Programme Expenditure

Source of fund	a/ Disbursements 1990-1991	Unliquidated obligations as at 31 December 1991	Total expenditure 1990-1991
Country IPF	295,648,619	19,849,915	315,498,534
Regional IPF	25,353,642	1,671,614	27,025,256
Interregional IPF	1,729,570	107,987	1,837,557
Global IPF	13,804	75	13,879
Sub-total (Sch.2)	322,745,635	21,629,591	344,375,226
Special Programme Resources	2,210,868	80,028	2,290,896
Special Measures Fund for LDC	2,155,285	110,168	2,265,453
Special Industrial Services	0	0	0
IPF Add-on Funds	0	0	0
Sub-total (Sch. 2)	327,111,788	21,819,787	348,931,575
Add: Adjustment against 1990/91 expenditures after closure of books of accounts [Note 1]	2,136,414		2,136,414
Less: Adjustment for unliquidated obligations recorded after the closure of accounts		(544,993)	(544,993)
Sub-total (Sch. 2)	329,248,202	21,274,794	350,522,996
Government Cash Counterpart Contribution	3,935,725	163,918	4,099,643
Programme Support Costs	333,183,927	21,438,712	354,622,639
			45,725,612
GRAND TOTAL			400,348,251

a/ Including cost-sharing, where applicable.

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
UNDP EXPENDITURE BY COUNTRY
FOR THE BIENNIUM ENDED 31 DECEMBER 1991

COUNTRY	IPF (INCLUDING COST-SHARING & ADD-ON FUNDS)		SPECIAL PROGRAMME RESOURCES		SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES		T O T A L	
	DISBURSE-MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE-MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE-MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE-MENTS	UNLIQUIDATED OBLIGATIONS
AFGHANISTAN	4,075,587	1,317,042					4,075,587	1,317,042
ALBANIA	126,574	2,958					126,574	2,958
ALGERIA	796,438	161,589					796,438	161,589
ANGOLA	3,215,640	129,188					3,215,640	129,188
ARGENTINA	637,513	12,697					637,513	12,697
BAHAMAS	0	0					0	0
BAHRAIN	2,428	0					2,428	0
BANGLADESH	4,975,947	264,143					4,975,947	264,143
BARBADOS	286,177	69,382					286,177	69,382
BELIZE	194,109	97,100					194,109	97,100
BENIN	4,870,474	142,925					4,870,474	142,925
BERMUDA	0	0					0	0
BHUTAN	2,692,738	101,836			89,826	1,633	2,782,564	103,469
BOLIVIA	1,639,718	5,178					1,639,718	5,178
BOTSWANA	2,031,694	25,917			251,240	10,600	2,282,934	36,517
BRAZIL	3,067,561	83,202					3,067,561	83,202
BULGARIA	50,460	3,708					50,460	3,708
BURKINA FASO	6,010,509	262,094	(6,990)	0			6,003,519	262,094
BURUNDI	5,430,613	405,488					5,430,613	405,488
CAMEROON	2,131,130	39,845					2,131,130	39,845
CAPE VERDE	640,893	6,613					640,893	6,613
CENTRAL AFRICAN REP	2,238,239	53,742					2,238,239	53,742
CHAD	6,073,560	357,669	(69)	0			6,073,491	357,669
CHILE	(4,935)	0					(4,935)	0
CHINA	9,274,924	1,564,875					9,274,924	1,564,875
COMOROS	447,373	2,850			434,110	0	881,483	2,850
CONGO	1,112,912	12,876					1,112,912	12,876
COOK ISLANDS	33,172	674					33,172	674
COSTA RICA	151,086	13,506					151,086	13,506
COTE D'IVOIRE	2,658,838	128,184					2,658,838	128,184
CUBA	382,705	31,528					382,705	31,528
CYPRUS	274,468	39,091					274,468	39,091
CZECHOSLOVAKIA	0	0					0	0
DEMOCRATIC P R KOREA	2,460,559	263,926					2,460,559	263,926
DJIBOUTI	76,680	2,300					76,680	2,300
DOMINICA	258,550	0					258,550	0
DOMINICAN REPUBLIC	320,644	0					320,644	0
ECUADOR	187,484	6,700					187,484	6,700
EGYPT	1,666,095	202,463					1,666,095	202,463
EL SALVADOR	502,404	12,094					502,404	12,094
EQUATORIAL GUINEA	1,503,077	65,152					1,503,077	65,152
ETHIOPIA	9,237,541	1,058,517					9,237,541	1,058,517
FIJI	524,419	12,001					524,419	12,001
GABON	474,401	2,823					474,401	2,823
GAMBIA	1,595,373	79,243					1,595,373	79,243
GHANA	2,317,697	451,560					2,317,697	451,560

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
UNDP EXPENDITURE BY COUNTRY
FOR THE BIENNIUM ENDED 31 DECEMBER 1991

COUNTRY	IPF (INCLUDING COST-SHARING & ADD-ON FUNDS)		SPECIAL PROGRAMME RESOURCES		SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES		T O T A L	
	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS
GREECE	0	0					0	0
GRENADA	46,269	0					46,269	0
GUATEMALA	0	0					0	0
GUINEA	8,657,844	241,403					8,657,844	241,403
GUINEA BISSAU	1,068,245	21,276			164,772	0	1,233,017	21,276
GUYANA	2,126,220	122,013					2,126,220	122,013
HAITI	2,865,486	147,434					2,865,486	147,434
HONDURAS	587,666	7,703					587,666	7,703
HUNGARY	27,500	48,003					27,500	48,003
INDIA	4,875,492	593,046	64,544	0			4,940,036	593,046
INDONESIA	5,325,493	376,424					5,325,493	376,424
IRAN	2,723,264	1,417,084					2,723,264	1,417,084
IRAQ	651,164	2,328					651,164	2,328
JORDAN	532,449	10,269					532,449	10,269
KENYA	2,313,588	80,274					2,313,588	80,274
KUWAIT	307,983	4,134					307,983	4,134
LAO P DEMOCRATIC R	1,294,782	14,384			532,504	1,930	1,827,286	16,314
LEBANON	480,680	44,054					480,680	44,054
LESOTHO	1,911,586	16,506					1,911,586	16,506
LIBERIA	1,099,088	3,499					1,099,088	3,499
LIBYA	321,075	4,323					321,075	4,323
MADAGASCAR	11,250,310	213,586					11,250,310	213,586
MALAWI	7,414,637	343,591			440,154	96,005	7,854,791	439,596
MALAYSIA	639,435	128,037					639,435	128,037
MALDIVES	229,779	10					229,779	10
MALI	6,458,265	250,846					6,458,265	250,846
MAURITANIA	3,099,434	43,216			41,226	0	3,140,660	43,216
MAURITIUS	444,117	2,736					444,117	2,736
MEXICO	950,617	56,663					950,617	56,663
MONGOLIA	540,428	50,492	104,408	0			644,836	50,492
MONTSERRAT	6,599	0	61,824	16,727			68,423	16,727
MOROCCO	1,921,196	80,534					1,921,196	80,534
MOZAMBIQUE	13,639,047	761,003					13,639,047	761,003
MYANMAR, UNION OF	5,775,213	576,285					5,775,213	576,285
NAMIBIA	94,730	12,027					94,730	12,027
NEPAL	3,701,684	145,593					3,701,684	145,593
NICARAGUA	1,432,992	25,136	228,113	4,186			1,661,105	29,322
NIGER	5,173,194	347,008					5,173,194	347,008
NIGERIA	3,487,334	94,535					3,487,334	94,535
OMAN	4,624,611	82,458					4,624,611	82,458
PAKISTAN	8,477,674	422,949					8,477,674	422,949
PANAMA	252,652	9,208					252,652	9,208
PAPUA NEW GUINEA	802,679	27,483					802,679	27,483
PARAGUAY	139,796	0					139,796	0
PERU	233,639	4,855					233,639	4,855
PHILIPPINES	2,963,076	532,491					2,963,076	532,491
POLAND	264,812	46,581					264,812	46,581

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
UNDP EXPENDITURE BY COUNTRY
FOR THE BIENNIUM ENDED 31 DECEMBER 1991

COUNTRY	IPF (INCLUDING COST-SHARING & ADD-ON FUNDS)		SPECIAL PROGRAMME RESOURCES		SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES		T O T A L	
	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS
REPUBLIC OF KOREA	186,280	26,000					186,280	26,000
ROMANIA	490,135	68,936					490,135	68,936
RWANDA	5,268,018	216,205					5,268,018	216,205
SAMOA	775,151	38,325					775,151	38,325
SAO TOME & PRINCIPE	328,326	14,091					328,326	14,091
SAUDI ARABIA	176,338	0					176,338	0
SENEGAL	3,560,329	106,282					3,560,329	106,282
SEYCHELLES	79,306	0					79,306	0
SIERRA LEONE	1,998,611	62,899					1,998,611	62,899
SOLOMON ISLANDS	1,603	0					1,603	0
SOMALIA	4,096,144	95,879	19,023	0			4,115,167	95,879
SRI LANKA	1,875,913	255,129					1,875,913	255,129
ST CHRISTOPHER & NEVIS	139,855	23,719					139,855	23,719
ST LUCIA	0	0					0	0
ST VINCENT & GRENAD	78,083	1,142					78,083	1,142
SUDAN	1,889,142	266,489					1,889,142	266,489
SURINAME	257,088	9,551					257,088	9,551
SWAZILAND	668,275	3,849					668,275	3,849
SYRIAN ARAB REPUBLIC	1,573,713	50,485					1,573,713	50,485
THAILAND	1,865,223	158,328					1,865,223	158,328
TOGO	3,014,085	41,607					3,014,085	41,607
TONGA			(967)	0			(967)	0
TRINIDAD AND TOBAGO	359,037	41,310					359,037	41,310
TUNISIA	775,928	113,991					775,928	113,991
TURKEY	838,174	39,265					838,174	39,265
TUVALU	0	0					0	0
U.S. TR. TERR.	144,655	5,015					144,655	5,015
UGANDA	9,715,418	257,605					9,715,418	257,605
UNITED ARAB EMIRATES	14,977	652					14,977	652
UNITED REP TANZANIA	11,885,502	833,543			201,453	0	12,086,955	833,543
URUGUAY	811,574	38,990					811,574	38,990
VANUATU	12,161	0					12,161	0
VENEZUELA	789	0					789	0
VIETNAM	12,144,769	1,372,231	500,000	0			12,644,769	1,372,231
YEMEN	6,851,987	213,688					6,851,987	213,688
YUGOSLAVIA	307,233	19,896					307,233	19,896
ZAIRE	8,110,416	219,024					8,110,416	219,024
ZAMBIA	2,868,919	160,367					2,868,919	160,367
ZIMBABWE	4,124,751	160,389					4,124,751	160,389
PAN-AFRICAN CONGRESS	481,994	30,874					481,994	30,874
SWAPO - NAMIBIA	1,424	0					1,424	0
TOTAL COUNTRY PROJECTS	295,648,619	19,849,915	969,886	20,913	2,155,285	110,168	298,773,790	19,980,996

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
UNDP EXPENDITURE BY COUNTRY
FOR THE BIENNIUM ENDED 31 DECEMBER 1991

REGIONAL/INTER- REGIONAL/GLOBAL PROJECTS	IPF (INCLUDING COST- SHARING & ADD-ON FUNDS)		SPECIAL PROGRAMME RESOURCES		SPECIAL MEASURES FUND FOR LEAST DEVELOPED COUNTRIES		T O T A L	
	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS	DISBURSE- MENTS	UNLIQUIDATED OBLIGATIONS
AFRICA	10,300,763	735,639					10,300,763	735,639
ASIA	11,217,397	647,846					11,217,397	647,846
CENTRAL AMERICA			44,261	3,009			44,261	3,009
EUROPE	98,583	12,102					98,583	12,102
LATIN AMERICA	112,811	15,535					112,811	15,535
NEAR EAST	3,624,088	260,492					3,624,088	260,492
SUBTOTALS REGIONAL	25,353,642	1,671,614	44,261	3,009	0	0	25,397,903	1,674,623
GLOBAL	13,804	75					13,804	75
INTER-REGIONAL	1,729,570	107,987	1,196,721	56,106			2,926,291	164,093
T O T A L	322,745,635	21,629,591	2,210,868	80,028	2,155,285	110,168	327,111,788	21,819,787
Add: Adjustments against 1990/91 Expenditure after closure of books	2,136,414	0					2,136,414	0
Less: Adjustment for unliquidated obligations recorded after the closure of accounts							-	(544,993)
GRAND TOTAL	324,882,049	21,629,591	2,210,868	80,028	2,155,285	110,168	329,248,202	21,274,794
=====								

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

UNITED NATIONS DEVELOPMENT PROGRAMME

NOTES TO THE FINANCIAL STATEMENTS

Summary of significant accounting policies

The financial statements reflect the application of the following significant accounting policies:

a) Accounting period

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

b) Accounting Convention

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

c) Translation Policy

The Financial Statements of the United Nations Development Programme are expressed in US dollars. Cash holdings denominated in currencies other than United States dollars are translated at the U.N. operational rate of exchange (which approximates to the market rate) in effect at 31 December 1991. An exchange gain or loss which arises on translation is included in expenditure for the current period, except that where the project cannot be determined, the charge is made to Miscellaneous Income.

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

d) Recognition of Income and Expenditure

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

i. Income

(1) Contributions, which are shown as CASH DRAWINGS if received by the Programme from the UNDP and as IOVs AND OTHER CHARGES if paid directly by the UNDP or other UN Agencies, as requested by the Organization, are recognised as income when received.

(2) Miscellaneous income is accounted for on a cash basis, except for bank interest and investment income which are accrued in the year to which they relate.

ii. Expenditure

Expenditure includes:

- (1) disbursements with regard to the project budgets for the current biennium;
- (2) outstanding obligations defined as prospective liabilities based on the following criteria:
 - Experts and other project personnel costs of contractual services rendered to the end of the current year;
 - Travel costs of travel which commenced before the end of the current year;
 - Equipment full costs of purchase orders or signed contractual agreements issued before the end of the current year;
 - Training costs incurred for fellowships to the end of the current year; full costs of training activity held during the year or commenced in the current year to end in the next year;
 - Sub-contracts payments falling due in the current year according to the terms of the contract or payment schedule; and
 - Miscellaneous costs of events occurred, goods or services placed before the end of the current year;
- (3) any excess or shortfall in the settlement of amounts reported in the previous biennium as outstanding obligations.

- iii. The full cost of equipment is charged to the appropriate project in the year it is purchased.
- iv. Staff costs directly relating to a project are charged to that project. Monthly salaries, social security and pension contribution are charged at cost. Other staff costs are charged at an actual average cost per person.
- v. Terminal payments to project staff and repatriation costs are charged when incurred.

Other notes to the Financial Statements

1. Adjustments to 1990/91 Expenditures

To ensure that UNDP and the Organization's records reflect the same figures, an adjustment of \$2,136,414 is required to 1990/91 expenditure. This is required to reflect part of an audit adjustment made to unliquidated obligations after the closure of the 1988-89 accounts.

2. Operating Fund

At year end the Organization's Operating Fund is aligned with the UNDP's accounts. Two major items included in accounts receivable which reflect the reconciliation process are \$4.0 million payment which is refundable from UNDP and \$4.964 million of unprocessed IOVs.

3. Miscellaneous income and items refunded to UNDP

The amounts of US\$ 838,128 in miscellaneous income and US\$ (108,730) of miscellaneous items refunded (charged) to UNDP in Statement I consist of:

Miscellaneous income and exchange adjustments	(US \$)
Bank interest income/Bank charges (net)	1,095,994
Net exchange gains/losses on revaluation and other	(692,696)
Other income items - Net gains on operation of fishing fleet	434,830
Total	838,128
	=====

Miscellaneous items refunded to UNDP	(US \$)
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For financially completed projects:

- Savings/overspendings from liquidation of prior years' obligations	210,241
- Miscellaneous charges and refunds	(318,971)
Total	(108,730)
	=====

4. Programme support costs

The total programme support costs of US\$ 45,725,612 shown in Statement I has been calculated as follows:

Computation of Programme Support Costs	(US\$)
-----	-----
Programme Support Costs relating to -	
IPF and Cost-Sharing, Special programme resources,	
LDC, SIS, and IPF add-on-Funds - at 13% a/	45,567,989
Government Cash Counterpart Contributions b/	143,488
Sub-total	45,711,477

Less: Programme Support Costs relating to	
miscellaneous items refunded to UNDP	(14,135)
Programme Support Cost waivers	0
Programme Support Costs not due to Agencies	
for Government execution as an Associated	
Agency	0
Sub-total	(14,135)

Total Programme Support Costs - 1990/91	45,725,612
	=====

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

b/ At 3.5%

5. Accounts receivable and payable

(a) The amount of US\$ 17,209,785 under accounts receivable in Statement I consists of:

	(US\$)

Salary and other personnel advances	2,009,550
Travel advances	2,281,429
Advances to Fellows	420,693
Locally recoverable items	874,003
UNDP current account	19,596
UN current account	22,133
Due from other Agencies	152,653
Accrued Income	529,700
Other	10,900,028
Total	17,209,785
	=====

(b) The amount of US\$ 25,921,406 in accounts payable in Statement I consists of the following:

	(US\$)
Unliquidated obligations- prior years	1,007,330
Amount due to other Programmes	11,807,204
Accrued salaries	3,075,150
Travel expense claims payable	2,620,310
Deferred credits to projects	557,793
Project income	619,023
UN current account	398,927
Retention from suppliers	57,800
UNJSPF	31,903
Other	5,745,966
Total	25,921,406
	=====

6. Furniture, Equipment and Automobiles

The cost of non-expendable equipment carried in the inventory records on behalf of UNDP was \$113.4 million.

During the biennium, arrangements were finalized for the transfer to Government, upon the closure of completed projects, of equipment which had originally cost \$23.6 million.

7. Ex-Gratia Payment

In 1991 a UNDP staff member was granted the payment of one month net base salary (US\$ 601.32) for flood relief in Bangladesh.