

**PART III****MANAGEMENT LETTER ON THE AUDIT  
OF THE EMERGENCY FARM RECONSTRUCTION PROJECT IN KOSOVO  
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2000****GENERAL****Introduction**

1. – The present management letter is being submitted on the results of the audit of the Emergency Farm Reconstruction Project (EFRP) in Kosovo for the period ended 31 December 2000. This project financed through the World Bank (WB), was executed by the Food and Agriculture Organization (FAO) on behalf of the United Nations Interim Mission in Kosovo (UNMIK) (see annex I for background information on the project). This specific audit was requested by the Finance Committee in May 2000 (94<sup>th</sup> Session) on the basis of Financial Regulation 12.6 of the FAO. The scope of the audit was determined in compliance with the Agreement between the UNMIK and the FAO concluded on 14 August 2000 and the Terms of Reference (TOR) agreed between the WB and the FAO. The audit was carried out at Headquarters and in the field. My staff visited the EFRP premises in Pristina and conducted spot checks in two municipalities where the project was implemented.
2. – The present management letter, which was written in English, includes the observations and recommendations arising from the audit of the financial statements of the EFRP for the period ended 31 December 2000 for the preparatory and the implementation phases, respectively (first part) and from the specific examinations conducted as requested in paragraph 6 of the TOR mentioned above (second part).

**Audit of the Project Financial Statements**

3. – My staff audited the Project Financial Statements (PFSs) for the period ended 31 December 2000, which were produced separately for the preparatory and the implementation phases, respectively. According to paragraph 7 of the TOR, a draft version of the financial statements should have been submitted by 31 March 2001, while the final version was due on 30 June 2001. As detailed in paragraph 14 these deadlines were not adhered to. As a consequence, I was unable to issue my opinion within six months of the end of the financial period concerned as foreseen in paragraph 7 of the TOR.
4. – The audit was carried out in accordance with the common auditing standards of the Panel of External Auditors of the United Nations (UN), the Specialized Agencies and the International Atomic Energy Agency. These standards require that the audit be planned and carried out so as to obtain reasonable assurance that the financial statements are free of material mis-statement. The Director-General is responsible for preparing these financial statements, and I am responsible for expressing an opinion on them.
5. – The audit was performed in compliance with the TOR mentioned above. It included an examination, on a test basis, of evidence supporting the disclosures in the financial statements. Also, it included assessing the accounting principles used and the compliance with the legal authority as well as evaluating the overall presentation of the financial statements. Furthermore, as requested in paragraph 4 of the TOR, all the Statements of Expenditures (SOEs) used as the basis for the submission of withdrawal application were also audited. The FAO rules and procedures were applicable to the EFRP, with the exception, however, of any specific rules, procedures or best practices prescribed or advised by the donors as conditions of the grant agreements. In fact, procurement had to be carried out according to the WB rules

and procedures and the Bank also determined the format of the operational and financial reporting.

6. – The audit enabled me to issue the unqualified audit opinions on the financial statements for the preparatory and the implementation phases, which are reproduced in PART I and PART II.

### **Specific Examinations**

7. – In addition to the audit of the accounts, my staff carried out specific examinations as requested in paragraph 6 of the TOR mentioned above:

- The organisation, systems and procedures put in place for the project's implementation were examined at Headquarters and in Pristina. The following aspects were specifically reviewed: organisation and staffing (see paras. 38 to 51) and systems of payment (see paras. 59 to 72) plus, for the field, relations with implementing agencies (see paras. 52 to 53), procedures issued locally (see para. 54), office premises (see paras. 55 to 56) and inventories (see paras. 57 to 58).
- The procurement aspect was reviewed: all tenders (except those under direct contracting) related to the procurement of goods completed by 31 December 2000 were examined (see paras. 73 to 91). The employment of consultants was also reviewed (see paras. 92 to 95).
- In the field, my staff visited project beneficiaries (farmers and veterinary centres). Spot checks were conducted to ascertain the actual delivery of goods. Distribution to minorities could, however, not be checked due to the security situation. The activity of one Non-Governmental Organisation (NGO), out of two still active at the time of the field visit, was reviewed (see paras. 96 to 98).

### **SUMMARY OF RECOMMENDATIONS**

8. - The table that follows recapitulates my recommendations. As requested by the Finance Committee in September 2001 (97<sup>th</sup> Session), the table indicates the relative priority of these recommendations (fundamental, significant or merits attention<sup>1</sup>) as well as the timeline for their implementation.

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<sup>1</sup> The priority of the recommendations was classified as follows:

- **Fundamental:** action that is considered imperative to ensure that the Organization is not exposed to high risks. Failure to take action could result in severe financial consequences and major disruptions to the operations.
- **Significant:** action that is considered necessary to avoid exposure to significant risks. Failure to take action could result in irregularities, inefficiencies and disagreements, which could have significant consequences, including financial ones, and compromise the attainment of objectives.
- **Merits attention:** action that is considered desirable and should result in enhanced control or better value for money.

**Table 1: Recommendations issued with their relative priority and timeline for implementation**

| Recommendation   | Priority         | Timeline   |
|--|------------------|--|
| <ul style="list-style-type: none"> <li>While paragraph 3 of the TOR clearly describes the type and number of documents to be produced, I recommend that, for the future, the precise format of the financial statements required be agreed prior to the commencement of the project. (see para. 14)</li> </ul>   | Merits attention | Future project agreements                                  |
| <ul style="list-style-type: none"> <li>To give a better picture of the project implementation and liabilities, I recommend, however, that either an annex or a note be included in the future PFSs for the implementation phase, which would disclose the list of expenditures already committed but not paid. (see para. 16)</li> </ul>   | Merits attention | 2001 draft PFSs to be produced by 31 March 2002 the latest |
| <ul style="list-style-type: none"> <li>For the future, I recommend that, as a standard practice, detailed provisions on the computation and use of interest income be included in the agreements concluded. (see para. 18)</li> </ul>  | Significant      | Future project agreements                                  |
| <ul style="list-style-type: none"> <li>In order to prevent the recurrence of a similar situation in the future, I recommend that the FAO take all the necessary steps to ensure the accounting closure of all projects within three months. (see para. 25)</li> </ul>  | Fundamental      | End of the 2002-03 biennium                                |
| <ul style="list-style-type: none"> <li>I recommend that future SOEs comply with the cash basis principle. I further recommend that future SOEs be strictly monitored by the FAO Finance Division (AFF) to exclude any unpaid expenditures. The opportunity could, however, be taken at that stage to detect and expedite, if necessary, any late payments of expenditures. (see para. 32)</li> </ul> | Fundamental      | Immediate effect   |
| <ul style="list-style-type: none"> <li>For the future, I recommend that a provision for support costs always be included in any project agreements. (see para. 36)</li> </ul>  | Significant      | Future project agreements                                  |
| <ul style="list-style-type: none"> <li>Should the project be extended (as expected), I would recommend that enhanced logistics be considered since it was a key component for the sound implementation of the project. (see para. 45)</li> </ul>   | Significant      | Project extension  |
| <ul style="list-style-type: none"> <li>I strongly recommend that the manual, which was still in draft form at the time of writing this management letter, be finalised and issued as soon as possible and, in any case, before any new contribution is received from the WB. (see para. 50)</li> </ul>   | Significant      | Immediate effect   |
| <ul style="list-style-type: none"> <li>Furthermore, in order to avoid the recurrence of the delays encountered for the 2000 financial statements, I recommend that the responsibility of submitting the PFSs be given solely to the Finance Division. (see para. 51)</li> </ul>  | Fundamental      | Immediate effect   |
| <ul style="list-style-type: none"> <li>To avoid any undue overcharges on a specific project, I recommend that the FAO reiterate its numerous requests to WFP for a timely issuance of invoices. (see para. 56)</li> </ul>  | Significant      | Immediate effect   |
| <ul style="list-style-type: none"> <li>I recommend that a procedure for the permanent inventory of the warehouse be drafted, in particular, for accurately checking drugs and veterinary instruments coming into the warehouse and those distributed to the veterinary surgeons. (see para. 58)</li> </ul>   | Significant      | End of 2001  |
| <ul style="list-style-type: none"> <li>I recommend that payments through letters of credit be incorporated in Oracle since my staff was informed that such could be done using standard functionality. (see para. 61)</li> </ul>   | Merits attention | End of 2001  |
| <ul style="list-style-type: none"> <li>I recommend that the matter [joint signatories rule for the field bank account] be solved as soon as possible. (see para. 65)</li> </ul>  | Merits attention | As soon as possible  |
| <ul style="list-style-type: none"> <li>Since the FAO/ECU was not equipped yet, I would recommend that a bank note detector (for DM and subsequently Euro) be purchased. (see para. 72)</li> </ul>  | Significant      | As soon as possible for DM                                 |
| <ul style="list-style-type: none"> <li>Since experience showed that the delivery deadlines set were not always met, I recommend that a more realistic approach be taken for future deadlines. (see para. 91)</li> </ul>  | Significant      | Future procurement contracts                               |
| <ul style="list-style-type: none"> <li>Should the Organization be faced with similar requirements in the future, I would recommend that a thorough evaluation of the practices and procedures to be applied and their consequences be conducted prior to the conclusion of the agreement. (see para. 110)</li> </ul>   | Fundamental      | Future project agreements                                  |

## **AUDIT OF THE PROJECT FINANCIAL STATEMENTS**

### **BACKGROUND INFORMATION ON THE ACCOUNTING, REPORTING AND AUDITING OF THE PROJECT**

#### **FAO Obligations**

9. – As per General Condition (GC) 3.4 of the Agreement between the UNMIK and the FAO, the latter had the following obligations to:

- (a) *"keep an accurate and systematic accounts and records in respect of the Services and Items hereunder, in accordance with [its] Financial Regulations and Rules and in such form and detail as [to] clearly identify all relevant charges and cost";*
- (b) *"submit to the Client [UNMIK], with a copy to the Bank [WB] or the Association [International Development Association - IDA], as the case may be, an annual financial statement of account showing the use of funds expended for the Services and Items during the previous calendar year, as specified in more detail in the SC [Special Conditions]."*

As per paragraph (c) of the same, *"the accounts and records and annual statements referred to in paragraphs (a) and (b) above shall be audited as specified in the SC"*. In this regard, the SC specified that the accounts, records and annual statements mentioned above would not only be *"subject to the internal and external auditing procedures set forth in the [FAO's] Financial Rules and Regulations"*, but that the FAO's External Auditor would also *"carry out a specific audit of these accounts and records and annual statements, of such scope that as the Client [would] specify"*.

10. – As per paragraph 3 of the TOR for the audit of the EFRP, *"each phase's Project Financial Statements should include:*

- *(a) a Statement of Sources and Uses of Funds for the current fiscal year and accumulated to date, showing comparison of budget and actual funds received from the World Bank, project funds from other donors, and counterpart funds separately and uses of funds by main categories of expenditures; and*
- *(b) a Summary of Expenditures showing comparison of budget and actual expenditures under the main project phase headings, both for the current fiscal year and accumulated to date."*

Furthermore, *"as an annex to each phase's Project Financial Statements, the FAO [would] prepare a reconciliation between the amounts shown as "received by the project from the World Bank" and that shown as being disbursed by the World Bank. As part of that reconciliation, the FAO [would] indicate the mechanism for the disbursement, e.g. Statements of Expenditures, special commitments, or direct reimbursement"*.

11. – In addition to each phase's PFSs, the FAO had also to produce, in compliance with GC 3.6 of the Agreement mentioned above, specific reports and documents. As detailed in Appendix IV to the Agreement, quarterly Project Management Reports (PMRs) in formats consistent with Annex 6 of the Association's Loan Administration Change Initiative (LACI) Handbook should notably include the following financial management reports:

- Project Sources and Uses of Funds Statement;
- Uses of Funds by Project Activity;
- Statement of IDA and Dutch Grant Funds.

#### **Mode of Billing and Payment and Audit of Statements of Expenditures**

12. – As per GC 6.4 of the Agreement between the UNMIK and the FAO, the former authorised the latter *"to prepare and submit on [its] behalf applications for payment to the Association in the format specified in Appendix VIII"* (standard application for withdrawal) to cover the estimated cost of the provisions of the Services and Items for an initial period.

Thereafter, the FAO had to "*periodically prepare statements reflecting expenditures paid during the period of such statement, in the format specified in Appendix IX*" (standard SOE) together with an application for withdrawal.

13. – As provided for in paragraph 4 of the TOR mentioned above, and in addition to the audit of the PFSs, I was also required to audit all SOEs used as basis for the submission of the withdrawal application and apply such tests and controls deemed necessary. In this regard, the TOR indicated the following:

- "*These expenditures should be carefully compared for project eligibility with relevant financing agreements, and with reference to the Project Appraisal Document (PAD) for guidance when considered necessary.*
- "*Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor.*
- "*Annexed to the Project Financial Statements should be a schedule listing individual SOE withdrawal applications by specific reference number and amount.*"

#### **PRODUCTION AND FORMAT OF THE PROJECT FINANCIAL STATEMENTS**

14. – In accordance with paragraph 7 of the TOR, draft and final financial statements were due to be submitted on 31 March and 30 June 2001, respectively. These deadlines were not adhered to. My staff was provided, on 10 May 2001 only, with some financial statements for the implementation phase, which were not in line with the agreed TOR. The documents provided were, in fact, the PMR issued to the WB for the last quarter of 2000 and, as such, did not contain the prescribed statements and annexes. A revised draft version of the financial statements for both the preparatory and implementation phase was submitted on 17 May 2001. However, they were still not in line with the format prescribed in paragraph 3 of the TOR as recalled above. All the shortcomings were eventually rectified in the new version of the draft and in the final financial statements provided on 19 October and 5 November 2001, respectively. **While paragraph 3 of the TOR clearly describes the type and number of documents to be produced, I recommend that, for the future, the precise format of the financial statements required be agreed prior to the commencement of the project.**

#### **APPLICABLE ACCOUNTING STANDARDS**

15. – As per paragraph 2 (c) of the TOR, in conducting the audit, special attention should be paid to whether "*the project accounts have been prepared in accordance with consistently applied International Accounting Standards (IAS)*". To a certain extent this could result in a contradiction with GC 3.4 (a) of the Agreement between the UNMIK and the FAO, which stipulated that the latter should "*keep accurate and systematic accounts and records [...] in accordance with [its] Financial Regulations and Rules*". As part of the UN system, the FAO had, in fact, to apply the UN Accounting Standards (UNAS). Although the UNAS were based, to a large extent, on the relevant IAS, differences existed mainly because of the essentially non-commercial nature of the UN organisations' activities and the central place of approved budgets in the organisations' operations. One of these differences was related to accrual accounting for expenditure. According to paragraph 37 of the UNAS, "*expenditure for a financial period is the sum of the disbursements and valid unliquidated obligations made against the appropriations/allocation of the period*", whereby only unliquidated obligations associated with goods and services received or supplied are recognised as liabilities by IAS 37.

16. – It should be noted, however, that neither the UNAS nor the IAS did apply to the PFSs. As agreed with the WB, expenditures were recorded in the PFSs on a cash basis. However, as

provided for in SC 6.4 (e) of the Agreement between the UNMIK and the FAO, "*the period of final accounting of costs [was] four months after the Grant's closing date*". In the case of the preparatory phase, whose Grant's closing date was 30 September 2000, it meant that expenditures could be paid up to 31 January 2001. Since accrual accounting was not adopted, no balance sheet was required. In any case, since the project focused on the distribution of goods and services, assets were limited to those used for the local administration of the project in the FAO Emergency Co-ordination Unit (FAO/ECU) in Pristina. **To give a better picture of the project implementation and liabilities, I recommend, however, that either an annex or a note be included in the future PFSs for the implementation phase, which would disclose the list of expenditures already committed but not paid.**

#### FINANCIAL STATEMENTS RELATED TO THE PREPARATORY PHASE

##### Sources of Funds

17. – The preparatory phase was funded by an IDA preparation grant not exceeding US\$ 565,000 according to the Grant Trust Fund (TF) Agreement 023448 of 16 April 2000. As disclosed in Statement A and in Annex I, actual funds received amounted to US\$ 542,500 made of an advance of US\$ 300,000 and two subsequent replenishments requested through SOE submitted on 7 September 2000 and 22 January 2001 for US\$ 191,570 and US\$ 50,930, respectively. Following an adjustment made upon request of my staff, the net interest earned on the cash balance for an amount of US\$ 2,292 was subsequently added. As a result, "funds received" amounted in total to US\$ 544,792 as disclosed in Statement A and Annex I.

18. – In the absence of any provisions relating to interest income in the Agreement between the UNMIK and the FAO, the latter applied its current TF procedures. As per section 250.253 of the FAO manual "*interest is calculated on a semi-annual basis at the average rate of interest earned during the preceding six months, applied on four-fifths of the cash balance of each Trust Fund account at the end of each month of the preceding months*". Should, however, the TF have a deficit cash balance, interest would be debited on the full amount of the deficit as per section 250.252 of the FAO manual. For the last six months of 2000, the average rate of interest earned was 6.32%. This rate was used when the project was in deficit (in September and October 2000) while the interest income earned by the project was calculated on the basis of 5.056% equivalent to four-fifths of 6.32%. Altogether the net interest earned amounted to US\$ 2,292.14, which was rounded to the nearest dollar in the PFSs. **For the future, I recommend that, as a standard practice, detailed provisions on the computation and use of interest income be included in the agreements concluded.**

##### Uses of Funds

19. – As far as the uses of funds were concerned, my staff was provided with the supporting documentation of the expenditures reported to the WB, as well as with the transactions listings of expenditures charged to the EFRP as per the FAO book of accounts. On that basis, they were able to carry out the reconciliation of the amounts disclosed in the PFSs with the SOEs submitted to the WB, on the one hand, and with the FAO book of accounts as at 31 December 2000, on the other hand. As indicated in paragraph 2 (d) of the TOR, "*clear linkages should exist between the books of accounts and reports represented to the Work Bank*". As detailed in the following paragraphs, this was not always the case.

20. – Eleven transactions for a total amount of around US\$ 5,312 were included in the amount disclosed as "uses of funds" but never reported in the SOEs submitted to the WB. As disclosed in Statement A, this was the cause for the difference between the "sources of funds"

(US\$ 542,5000 interest income excluded) and the "uses of funds" (US\$ 547,812). With the addition of the interest income of US\$ 2,292 to the "sources of funds", the difference was reduced to US\$ (3,020) as disclosed under "closing balances" in Statement A.

21. – An amount of US\$ 5,262, which was related to a plane ticket for a consultant disbursed by the FAO Liaison Office in Washington (LOWA), had initially been included in the SOEs reported to the WB for the preparatory phase but not accounted for in the FAO book of accounts or in the PFSs for this phase. The expense had, in fact, been charged to the implementation phase. Since it was indeed related to the preparatory phase (the travel had taken place on 11 September 2000), on recognition of the error, the amount was then included in the preparatory phase's PFSs and charged back to the preparatory phase in the FAO book of accounts.

22. – An amount of US\$ 8,154.61 corresponding to nine transactions processed in 2001 for the implementation phase (salaries paid to general service staff), had been accounted for in the preparatory phase in FAO book of accounts while being disclosed in the implementation phase's PMRs and PFSs. This was subsequently correctly reclassified, upon my staff's request, in the implementation phase in FAO book of accounts.

23. – With regard to the project accounting closing date, SC 6.4 (e) of the Agreement between the UNMIK and the FAO stipulates that "*the period of final accounting of costs [was] four months after the Grant's closing date*". In the case of the preparatory phase whose Grant's closing date was 30 September 2000, it meant that expenditures could be paid and accounted for up to 31 January 2001. On 29 December 2000, the FAO had requested that such a deadline be postponed to 31 March 2001. The WB, however, did not agree with it on the grounds that, since it would amount to a retroactive extension of the Grant closing date, it would require a formal request and justification on the part of the UNMIK. The project could not be closed as at 31 January 2001, however, as transactions were still being processed in the FAO book of accounts beyond that date. As a result, my staff was of the opinion that certain transactions, totalling US\$ 16,826.10 as recapitulated in the table 2 below, which had been recorded after the 31 January 2001 deadline should be considered as ineligible expenditures.

**Table 2: Transactions recorded after the 31 January 2001 deadline for the preparatory phase**

| <b>Transaction</b>             | <b>Date of transaction</b> | <b>Amount in US\$</b> |
|--------------------------------|----------------------------|-----------------------|
| A. – Travel costs (consultant) | 13 February 2001           | 1,053.00              |
| B. – Staff secondment costs    | 7 May 2001                 | 1,575.00              |
| C. – Consultant's fees         | 1 February 2001            | 9,704.10              |
| D. – Travel costs (consultant) | 13 February 2001           | 2,274.00              |
| E. – Travel costs (consultant) | 6 March 2001               | 2,220.00              |
| <b>TOTAL</b>                   |                            | <b>16,826.10</b>      |

24. – When the matter was brought to the attention of the FAO, the initial response was that the Organization met the deadline in sending the last withdrawal application before 31 January 2001 and that, in order to do so, it was necessary to include expenditures incurred but not yet recorded in the official books of account (Oracle General Ledger). Since my staff still questioned the eligibility of the expenditures at stake, the WB responded as follows, on 29 August 2001, to FAO's request for clarification. *"In connection with your request to confirm the eligibility of the expenditures relating to the Kosovo EFRP in the amount of US\$ 16,826.10 [...] which were paid for by the FAO after the grace period which ended on January 31, 2001; The Bank confirms, on a non-precedent basis, that these expenditures may be considered eligible given that the services had been received (and not only incurred) by the project before the closing date of September 30, 2000. However, please note that expenditures paid for after the grace period granted by the World Bank upon the closing date of a project are not normally considered eligible expenditures and therefore it is hoped that this will not recur for the main implementation grant and other grants relating to this project."*

25. – In view of the Bank's response, I accept that the expenditures mentioned above for an amount of US\$ 16,826.10 be considered, on an exceptional and non-precedent basis, eligible. On that basis, I am of the opinion that the financial statements give a true and fair view of the financial situation of the Sources and Applications of Funds of the preparatory phase of the EFRP for the year ended 31 December 2000. **In order to prevent the recurrence of a similar situation in the future, I recommend that the FAO take all the necessary steps to ensure the accounting closure of all projects within three months.**

#### **Review of PMRs**

26. – In addition to the reconciliation exercises mentioned above, my staff's intention was also to conduct a thorough review of the PMRs, which had been submitted to the WB. However, since they were not provided with all the required information, their review of the PMRs was limited. They noted the following.

- The first PMR, which gave the project's situation as at 30 June 2000 (second quarter of 2000), was submitted to the WB on 11 August 2000, which was prior to the official launching of the project since the Agreement between the UNMIK and the FAO was only concluded on 14 August 2000.
- The PMR as of 30 September 2000 (third quarter of 2000) was submitted to the WB on 20 October 2000.
- The PMR as of 31 December 2000 (fourth and last quarter of 2000) was submitted to the WB on 16 February 2001.

#### **FINANCIAL STATEMENTS RELATED TO THE IMPLEMENTATION PHASE**

##### **Sources of Funds**

27. – The initial implementation phase was to be funded by the IDA and the Dutch Government for US\$ 10 million (Grant TF Agreement 023907 of 25 July 2000) and US\$ 1.8 million (Grant TF Agreement 023822 of 23 June 2000), respectively. It should be noted that since the Dutch Grant was to be channelled through the IDA, no separate financial statements were required. For the FAO, both grants were, in fact, regrouped into one single TF. However, following the WB's request that the various contributions be clearly identified and that the related expenditures be charged to specific components of the implementation phase, in accordance with the project's budget, my staff was informed by the FAO that the Organization would comply with this demand commencing with the report for the second quarter of 2001.



28. – As disclosed in Statement A and in Annex I, two advances for a total amount of US\$ 2.8 million (US\$ 2.4 million from the IDA and US\$ 0.4 million from the Dutch Grant) were initially received. Two letters of credit were subsequently issued on 4 and 20 October 2000 for US\$ 2,774,700 and US\$ 1,538,300, respectively. Two SOEs were submitted to the WB on 2 and 14 February 2001 for US\$ 763,744 and US\$ 1,234,138, respectively. As with the preparatory phase, net interest earned on the cash balance (equal to US\$ 28,338.32) was included under "sources of funds" bringing the total of "funds received" to US\$ 7,141,338 as disclosed in Annex I.

#### Uses of Funds

29. – In order to determine whether there were indeed "*clear linkages [...] between the books of accounts and reports represented to the Work Bank*" as prescribed by paragraph 2 (d) of the TOR, my staff reconciled the amounts disclosed in the PFSs with the FAO book of accounts as at 31 December 2000, on the one hand, and with the reports submitted to the WB (SOEs and PMRs). In addition to the SOEs mentioned in the preceding paragraph, the following two PMRs had been submitted:

- The first PMR, which gave the project's situation as at 30 September 2000, was submitted to the WB on 2 November 2000. Since, however, it covered the third quarter of 2000, which was prior to the official launching of the implementation phase (1 October 2000) and only included unpaid expenditures, it was not taken into account.
- The second PMR, as of 31 December 2000 (fourth and last quarter of 2000) was submitted on 16 February 2001 and was the basis of the reconciliation.

30. – The reconciliation performed by my staff called for the following comments:

- The total amount disclosed under "sources of funds" should have been US\$ 4,341 thousands and not US\$ 4,328 thousands as incorrectly disclosed in the PMR submitted to the WB for the last quarter of 2000. My staff was subsequently informed that the adjustment made to correct this was, however, reflected in the PMR submitted for the first quarter of 2001.
- The total amount of US\$ 6,302 thousands disclosed as "uses of funds" as at 31 December 2000 included an amount of US\$ 6,588, which had not been disbursed as at 31 December 2000 since it was not claimed by the NGO concerned as part of the final payment foreseen in the Letter of Agreement concluded with it. The same amount, which, correctly, had not been included in the SOE submitted, had, however, been included in the PMR submitted for the last quarter of 2000. Such practice was not in compliance with the cash basis principle required by the WB (see paras. 15 to 16). However, its impact on the PFSs was not material enough to justify a qualification.
- As previously mentioned (see para. 21) an amount of US\$ 5,262 for travel expenses, which had initially been wrongly accounted for in the FAO book of accounts for the implementation phase, was correctly reclassified to the preparatory phase.
- As also previously mentioned (see para. 22), an amount of US\$ 8,154.61 corresponding to nine transactions processed in 2001 for the implementation phase (salaries paid to general service staff), which had been accounted for in the preparatory phase in FAO book of accounts while being disclosed in the implementation phase PMRs and PFSs, was correctly reclassified in the implementation phase in FAO book of accounts.

31. – I am of the opinion that the financial statements give a true and fair view of the financial situation of the Sources and Applications of Funds of the implementation phase of the EFRP for the year ended 31 December 2000. Furthermore, with the exception of the discrepancies noted in the preceding paragraph, they reconcile with the FAO book of accounts.

## OTHER MATTERS

### Production of SOEs

#### *SOEs for Expenditures Paid by Headquarters*

32. – My staff reviewed the systems and procedures in place relating to the production of SOEs for expenditures paid at Headquarters. They noted that SOEs submitted to the WB were not prepared on the sole basis of expenditures actually paid by the FAO but also included expenditures for which no disbursement had been made during the period of such statement. Inclusion of unpaid expenditures is not in line with GC 6.4 (d) of the Agreement between the UNMIK and the FAO, which stipulates that the FAO would "*periodically prepare statements reflecting expenditures paid during the period of such statement, in a format specified in Appendix IX [standard SOE] together with associated supporting documentation, as necessary*". **I recommend that future SOEs comply with the cash basis principle. I further recommend that future SOEs be strictly monitored by the FAO Finance Division (AFF) to exclude any unpaid expenditures. The opportunity could, however, be taken at that stage to detect and expedite, if necessary, any late payments of expenditures.**

#### *SOEs for Locally Paid Expenditures*

33. – My staff also reviewed the systems and procedures in place for locally paid expenditures to be included in the SOEs. The EFRP National Financial Management Specialist (NFMS), under the authority of the EFRP Team Leader:

- submitted payment requests/orders and supporting documents to the FAO/ECU finance office in order for them to be recorded in the FAO book of accounts;
- established the EFRP monthly lists of account for the locally paid expenses;
- produced the SOEs for locally paid expenditures and sent them to Headquarters to be integrated under item "field expenditures local" in the SOEs submitted to the WB.

34. – The linkage between the FAO book of accounts and the reports to the WB was based on the project's lists of accounts. Depending on how the expenditures were paid (see paras. 59 and 63), such a list was extracted by the NFMS either:

- from the overall list of expenditures paid by the United Nations Development Programme (UNDP) in Pristina on behalf of FAO/ECU through the Inter-Office Voucher (IOV) system; or
- from the imprest account monthly returns when the FAO/ECU was granted the authorisation to operate an imprest account and open its own bank account.

As a consequence, the locally produced SOEs were not a direct output of the FAO/ECU information and accounting system.. Only the monthly project's list of accounts extracted by the NMFS allowed for reconciliation between locally produced SOEs and the FAO/ECU imprest account.

### Checks Performed on Expenditures

35. – Expenditures related to consultants were checked through the orders of missions issued and the reports submitted. Expenditures related to procurement were checked as reported in the parts on procurement (see paras. 77 to 89) and on the implementation of the project in the field (see paras. 96 to 109). Locally paid expenditures were also checked and reconciled with the SOEs and PFSs as reported in annex II.

### **Project Support Costs**

36. – Project support costs were charged to the preparatory phase at the standard FAO rate of 5% (for emergency activities) on the actual disbursements made from the funding provided. They amounted to US\$ 27,000 or 4.98% of the funds provided (US\$ 542,500). No provisions for such were included in the Agreement between the UNMIK and the FAO. My staff was informed that, since support costs were a standard FAO practice for all Technical Cooperation (TC) projects, no specific agreement had been concluded. **For the future, I recommend that a provision for support costs always be included in any project agreements.**

37. – As far as the implementation phase was concerned, the Agreement between the UNMIK and the FAO provided for the following. As per SC 6.1. (a) "*for the initial Implementation Phase the estimated cost of the [FAO] Project Support [was] US\$ 484,000*". This amount was computed on the basis of the project budget at the time (equivalent to 4.1% of US\$ 11,8 million). My staff was informed that this reduced rate (compared to the standard one of 5% mentioned above), which was the result of negotiations with the WB, was accepted in consideration of the volume. A breakdown of the US\$ 484,000 was provided in Appendix VII to the Agreement. The GC 6.1. (a) also stipulated that "*should there be an increase or decrease in the cost of the Services or the Items, as compared to the estimate set forth in Appendix VII hereto, the amount for Project Support [should] be correspondingly adjusted by written agreement between the Client [UNMIK] and the UN Agency [FAO]*".

### **SPECIFIC EXAMINATIONS**

#### **ORGANISATION IN PLACE FOR THE PROJECT IMPLEMENTATION**

##### **Organisation for the Implementation of the Project at Headquarters**

38. – As per Appendix I of the Agreement concluded between the UNMIK and the FAO, the FAO was to implement the EFRP through its FAO/ECU in Pristina and relevant Headquarters services, in particular the Special Relief Operations Service (TCOR) of the TC Department. The Chief, TCOR, was the budget holder for the project, while the Operations Officer for the Middle East, Europe and the Balkan Central Asia (P-4), was given the responsibility, under the authority of a Senior Operations Officer (P-5), of managing the EFRP. They were assisted by two operations consultants for the day to day follow up of the project (one for components 1 to 3 and the other for component 4). They were also assisted by an Internal Auditor on secondment (P-4), who took over, in July 2000, the functions of the International Consultant Finance Management Specialist (IFMS) from the international consultant initially recruited (see paras. 46 to 51).

39. – The Finance Division (AFF) had the following responsibilities:

- for the Project Accounting Group: maintenance of financial accounts and management of the accounting records and General Ledger; provision of financial management advice, set up of project accounts and arrangements for accounting closure and project completion; approval of SOEs and PMRs.
- for the Accounts Receivable Unit: monitoring of receipts of project funds from donors;
- for the Accounts Payable Unit: authorisation of payments of EFRP accounts payable at Headquarters and issuance of the Field Budget Authorisations (FBAs) for expenditures incurred in the field.
- for the Decentralised Accounting Group: management of the imprest accounting records and accurate and complete processing of properly approved transactions.

The Procurement Service (AFSP) assisted the TCOR in the procurement of goods to be carried out in compliance with the WB rules and regulations. My staff noted that in order to comply with WB procedures it was necessary to hire an international procurement consultant.

### **Organisation of the Project Management Team in Kosovo**

40. – Under the umbrella of the FAO/ECU in Pristina a Project Management Team (PMT) was set up to implement the project's activities in collaboration with NGOs. In line with Appendix III of the Agreement concluded between the UNMIK and the FAO, an international consultant was recruited as Project Team Leader (TL) and Deputy to the Emergency Coordinator under the overall supervision of the Chief, TCOR. The TL was in charge of the management of the project: recruitment of local staff, coordination of the work of both the international and national consultants, liaison with the national authorities, other UN organisations, NGOs and donors.

41. – According to the Project Implementation Plan (PIP) dated 5 May 2000, the PMT should be made up of a mixture of local and international staff. Indeed the organisation chart of the project, as at 31 December 2000, stated that seven international consultants were under the authority of the TL. They were given the task of setting up and monitoring the working programme of the national specialists. However, since the international specialists were not permanently based in Kosovo, much of the monitoring workload relied on the TL as the only full time international staff of the PMT. This situation raised the following issues.

42. – On a day to day basis the TL was overloaded with the management of the local staff (22 people in total): eight national specialists, one translator, five drivers, plus, as of 1 January 2001, four municipality technicians formerly employed by one implementing agency and four drivers to drive them to the municipalities of Glllogovc and Skenderaj. Should the TL not have been able to meet this challenge, the running of the project could have proved damaging, given the fact that no National Deputy Team Leader (NDTL) had been hired, as initially planned in the PIP. At the time of my staff's visit, local staff was hired either as national consultants (six) or general service (seven). Prior to that they were all employed as casual workers for a three-month period. This was still the case for the remainder of the local staff (nine): the translator, the four municipality technicians and their drivers mentioned above were all on casual labour contracts. Local personnel were found to be stable. Turnover had been limited to two veterinary specialists who had resigned. Job descriptions conformed to those of the PIP except for the position of procurement and logistics specialist. As no international logistics specialist had been posted in Pristina, more emphasis had to be put on logistics by other staff members (see paras. 44 to 45).

43. – In a project where success heavily depended on technical expertise, the lack of relations on a daily basis between international and national specialists made the job of the TL highly demanding, mostly on very specific technical matters. International specialists participated both in the project's operations and the decision making process. Their end of mission reports included recommendations for the project's progress and for the certification of some expenses (in particular those relating to the work of the NGOs). International specialists also had to be present at some critical stages of the project implementation, such as the reception and distribution of drugs and machinery. However, since they were only working part-time on the project, their absence might have delayed the PMT's reaction to unexpected difficulties. For instance, it was necessary to wait for the international machinery consultant's mission (25 January – 15 February 2001) to negotiate with the supplier for the after sales services that had not been provided for the new tractors imported contrary to the provision in the contract concluded. Furthermore, contrary to what was envisaged, the two individuals who performed the procurement/logistics and the financial management functions ended up being posted to Headquarters as detailed below.

### Logistics Management of the Project

44. – Logistics was of the essence in such a project, where animals and goods were imported and distributed to a large number of beneficiaries. During the preparation of the programme, it had been agreed between the WB and the FAO that the International Consultant Procurement Specialist (IPS) should also be responsible for logistics and posted to Pristina on a full time basis. In fact, the FAO requested this consultant to stay at Headquarters to prepare and implement the procurement procedures to compensate for the lack of familiarity with WB procedures and also the lack of available staff to be dedicated to the project.

45. – As a consequence, logistics for the importation and distribution of cattle, drugs and machinery, from 29 September 2000 to January 2001, had to be mastered without any international logistic specialist devoted to the project. A national Procurement and Logistics Specialist had been hired. However, most problems were solved thanks to the effective hands-on management of the TL and with the help of the international specialists concerned present in Pristina and of the FAO/ECU Logistics and Security Officer. This officer was, in particular, responsible for customs clearance of veterinary equipment and drugs, transportation of cattle and machinery as well as for the distribution to minorities which required particular security measures. For this service, the equivalent of two-month's salary of this officer was charged back to the EFRP. **Should the project be extended (as expected), I would recommend that enhanced logistics be considered since it was a key component for the sound implementation of the project.**

### Financial Management of the Project

#### *Budget Responsibilities and Follow-up*

46. – As per the PIP dated 5 May 2000 the *"overall responsibility for financial management of the project [would] rest with the FAO, with primary responsibility being with its Headquarters in Rome and secondary responsibility being with the [...] FAO/ECU in Pristina"*. As previously mentioned, the Chief, TCOR, was the project's budget holder while the TL was authorised to incur expenditures locally through the issuance of FBAs. The project's budgets (one for the preparatory phase and one for the implementation phase) were prepared according to FAO rules and procedures outlined especially in the AFF Procedural Manual II entitled "Accounting for Projects". Once the project agreement was finalised, two "project accounts" (one for each phase) were established by the Projects Accounting Group in AFF. Each project account comprised a main or "mother" account and at least one low-level or "baby" project account, known as the "child" project account. It was at this level that postings took place. For each sub-division of the budget and delegation of budgetary authority within a project, a further "baby" project was established, against whose budget all related commitments and expenditures were charged. All "baby" projects established in relation to the FBAs issued for expenditures paid in Kosovo are recapitulated in table 1 in annex III.

#### *Staffing and Organisation*

47. – In terms of staffing the PIP envisaged that the existing *"teams of accountants to support the needs of other projects being implemented by the FAO"* would be increased as required for the project *"particularly with the recruitment of accounting staff into the FAO/ECU, including a Financial Manager and an Accountant"* to be recruited by the end of April 2000. According to Annex F to the PIP, the Financial Manager would be contracted by the FAO/ECU, *"have direct responsibility for the financial management arrangements of the project and report to the Financial Division of the FAO in its Headquarters in Rome"* (AFF). The Accountant would report to him.

48. – The Agreement concluded between the UNMIK and the FAO on 14 August 2000 still included provisions for the recruitment of these two personnel but their titles were changed to "Financial Management Specialist" and "Assistant Financial Management Specialist (Accountant)", respectively. As per Appendix III of the Agreement, the International consultant to be recruited as Financial Management Specialist (IFMS) would be "*responsible for the accounting and financial administration of the [...] EFRP in Kosovo*". More specifically he was notably "*to ensure the preparation and control of budgets and to supervise the financial and accounting functions of the [...] project in the field*" and to "*be responsible for the overall coordination of the financial administration of the project*". Contrary to what was envisaged in the PIP, he would, however, not report to AFF but be under the general supervision of the Chief, TCOR, the overall supervision of the Emergency Coordinator and the direct supervision of the TL in Kosovo and only "*with the technical backstopping of the Finance Division*".

49. – An international consultant was indeed recruited on that basis and received a total amount of US\$ 6,429 although his input to the project was limited. As previously mentioned, an Internal Auditor on secondment replaced him, in July 2000. He supervised the project's administrative and financial management in Kosovo and was responsible for the follow up of the budget and the reporting to the WB. Nevertheless, although he visited Kosovo regularly, he was not permanently based there but at Headquarters where his main task was to be the Budget Officer for all projects managed by TCOR. In my opinion, the financial management of the project raised the following issues.

50. – On a day-to-day basis in Pristina, the adequacy of financial reporting currently relied only on the skills of one local staff member. Furthermore, my staff noted, at the time of their visit, that there was no specific financial and operational procedure manual for the project. Such a manual, which was essential considering the fact that the project is managed in accordance with a mixture of FAO and WB financial rules and regulations, should have been finalised by 30 June 2000 at the latest according to the PIP. In fact, a draft was prepared in February 2001, only. Although it had the merit of providing valuable information on notably the disbursement procedures applicable to the project, it could not be regarded as satisfactory since it was not sufficiently operational in scope to provide detailed guidance to the officers in charge of the reconciliation and reporting to the WB. **I strongly recommend that the manual, which was still in draft form at the time of writing this management letter, be finalised and issued as soon as possible and, in any case, before any new contribution is received from the WB.**

51. – At Headquarters level, the financial management of the projects suffered from the following shortcomings:

- Since the WB specific requirements were sometimes in contradiction with the FAO rules and regulations, a time consuming process of reconciliation was required. The problem was further aggravated by the late posting of expenditures into the FAO General Ledger. As a result, the officer performing the functions of IFMS at TCOR had a crucial role in producing financial information on the project, essentially in a pragmatic way and by a process of trial and error. Such a situation, relatively manageable for the preparatory phase, was much less satisfactory for the implementation phase.
- Moreover, since as previously mentioned the officer performing the functions of IFMS was also the Budget Officer for all TCOR projects, there was only one layer of financial supervision for the EFRP at the TCOR. The Operations Officer did not play a very active role in the financial management of the project in the absence of a comprehensive view on how the budget was spent.

- As previously mentioned, it was the AFF's responsibility to approve SOEs and PMRs prior to their sending to the WB. On several occasions my staff noted, however, that these documents were certified in spite of discrepancies with the FAO accounts. **Furthermore, in order to avoid the recurrence of the delays encountered for the 2000 financial statements, I recommend that the responsibility of submitting the PFSs be given solely to the Finance Division.**

#### **Relations with the Implementing Agencies**

52. – The FAO, through Letters of Agreements (LOAs), contracted services with four different NGOs in order to:

- select villages and beneficiaries of the project;
- perform training sessions for the beneficiaries prior to the distribution of the cattle and farm machinery;
- handle cattle from their arrival in the province until their distribution to rural areas;
- organise the distribution of livestock and farm machinery; and
- implement the tractor repair programme.

As detailed in table 2 in annex III, five LOAs had been concluded at the time of my staff's review in November 2000: three for the preparatory phase and two for the implementation phase.

53. – As a consequence, the PMT relied strongly on NGOs as implementing agencies for the on the spot implementation of the project. As implementing agencies, NGOs were mostly given the task to select beneficiaries and participate in the distribution. Their monitoring activities, in accordance with the LOAs, consisted mainly of collecting data rather than giving technical advice to the farmers. My staff reviewed the LOAs and noted that the one concluded with the NGO "Action Against Hunger" (AAH) for the monitoring of the project in two municipalities (Gllogovc and Skenderaj) for three months up to 31 December 2000 was only signed on 10 and 22 November 2000 by the FAO and AAH, respectively. Furthermore, they noted that the LOA was not subsequently renewed since the AAH wanted to withdraw from Kosovo in March 2001, whereas monitoring needed to be carried out until June 2001. The TL, therefore, decided that the PMT would directly take over the monitoring activities for both municipalities and for that purpose hired the technicians previously employed by the AAH.

#### **Procedures issued by the Project Team Leader**

54. – The TL issued the following three procedures applicable to the implementation of the project:

- According to instructions dated 26 June 2000, any communications with FAO Headquarters and the WB had to be cleared by the TL. My staff noted that the procedure was adhered to.
- On 6 July 2000 international consultants were instructed to include, in their end of mission reports, a summary of the work carried out during the mission and a summary of the steps to be taken after the end of mission. My staff noted that the consultants, by and large, complied with this instruction, which proved to be useful for an appropriate follow-up of the work to be done by the local staff in the absence of the international consultants.
- On 3 January 2001 the local staff was instructed to submit a weekly programme to the TL, in particular for on the spot monitoring activities. This procedure was all the more necessary when the PMT took over the monitoring of the municipalities of Skenderaj and Gllogovc from the AAH.

### **Office Premises in Pristina**

55. – The PMT was located within the office of the FAO/ECU and the WFP in Pristina. It was assumed that the WFP had been given authorisation from the UNMIK to occupy the premises in the "ex-Kosovdrvo building" and to allow FAO staff to occupy and use office space in excess of WFP's needs. As the "ex-Kosovdrvo building" was made available to the WFP free of rental charges, the FAO and the WFP agreed on sharing expenses relating to the use of the building (see table 3 in annex III). Two Letters of Understanding (LOUs) were concluded between the two organisations covering the periods from December 1999 to 30 April 2000 and from 1 May to 31 October 2000, respectively. As the WFP was downsizing its activities and staffing in Pristina, it wanted the FAO to pay a higher share of the running costs of the building. As a result, the new LOU covering the period 1 November 2000 to 30 April 2001 was still under negotiation at the time of my staff's visit in February 2001. In the absence of a new LOU, the amount to be charged to the FAO for November and December 2000 was still not known in February 2001.

56. – The expenses relating to the "ex-Kosovdrvo building" in Pristina were equally divided among the projects implemented by the FAO/ECU. Such a breakdown went to the advantage of the EFRP, which had been charged 4.66 % only of the costs paid by the FAO/ECU to the WFP. Since the PMT occupied more than 12% of the surface of the building, the EFRP would have been charged with one third of the payments made by the FAO to the WFP on the basis of the square meters occupied. However, the rule relating to the share of the cost of the premises could not be strictly enforced by the FAO/ECU. Since the WFP invoices were sent with significant delays, some projects could not be charged back since they were already closed and their share has to be supported by other projects. **To avoid any undue overcharges on a specific project, I recommend that the FAO reiterate its numerous requests to WFP for a timely issuance of invoices.**

### **EFRP Assets in the Premises in Pristina**

57. – My staff reviewed existing systems and procedures in the management and control of inventory for non-expendable equipment, supplies and expendable equipment. Their intention was to carry out a physical check of non-expendable items recapitulated on the Headquarters' inventory control list as at 31 December 2000. Unfortunately, at the time of our visit, this list had still not been sent to the FAO/ECU in Pristina. As noted during field visits to other FAO Representations this did not comply with the FAO regulation stating that an inventory control form should be provided at the end of the year by Headquarters to all field offices for review and reconciliation with the physical inventory.

58. – In the absence of the Headquarters' list, my staff carried out spot checks on the basis of the inventory records maintained locally. They found that the inventory list as at 31 December 2000 for the assets located at the FAO/ECU premises was complete. Inventory numbers for two cars and a van were missing but the file was under completion. Assets financed by the EFRP were found to be duly identified by stickers. However, as far as the FAO/ECU warehouse was concerned, my staff could not be provided with an inventory list as at 31 December 2000 but only with an informal table showing that an inventory took place in 2001 under the supervision of the TL. Furthermore, my staff could not carry out any spot checks of the stocks available (drugs, veterinary instruments, liquid nitrogen) since the owner of the warehouse had forbidden entry to the warehouse following litigation with the FAO/ECU. **I recommend that a procedure for the permanent inventory of the warehouse be drafted, in particular, for accurately checking drugs and veterinary instruments coming into the warehouse and those distributed to the veterinary surgeons.** At the time



of writing this management letter, my staff was informed that such a procedure was being drafted.

#### **SYSTEMS USED FOR PAYMENT**

##### **Different Ways of Processing Payments**

59. – For the period reviewed, payments were processed in four different ways: two at Headquarters and two in the field.

- Expenditures paid at Headquarters were processed through the regular FAO procedures with the exception, however, of disbursement related to procurement of goods in excess of US\$ one million per contract/purchase order, which was made through WB letters of credits. If the former did not call for any comments, with the exception, though, of some late payments related to international consultants, such was not the case for the latter as detailed below.
- Expenditures paid in the field were processed through the UNDP IOV system for the preparatory phase. For the implementation phase they were processed through the FAO/ECU imprest account as of 10 October 2000 as detailed below.

##### **World Bank Letters of Credit**

60. – Disbursement through a letter of credit was processed as follows:

- A letter of credit was issued by the FAO main bank at Headquarters to the bank of the supplier. The supplier provided its own bank with all the necessary supporting documentation (including the notice of delivery), which was circulated to the FAO's Bank, and cleared by the FAO itself.
- The letter of credit was made operational after a further two-step process: the FAO issued a request to the WB for an active special commitment, which was issued by the WB to the supplier's bank. At the end of the process, cash was transferred directly from the WB to the supplier's bank.

It should be noted that payment through a letter of credit only covered 80% of the procurement related contract. The 10% advance payment and the remaining 10% to be paid after final clearance by the FAO of the after-delivery services agreed in the procurement contract were processed through regular FAO disbursement procedures.

61. – The letter of credit system should in theory enable the WB to keep control over the disbursement procedure and at the same time empower the FAO to check whether the procurement contract was adequately implemented. In fact, disbursement through letters of credit (two cases over the period reviewed for a total amount of US\$ 4.3 million) turned out to be a difficult issue for the FAO for the following reasons.

- Firstly, both letters of credit were processed with delays, which originated from the fact that the FAO did not normally issue letters of credit and was, therefore, not used to this means of payment. As a result of a learning process, further letters of credit to be issued are expected, however, to be processed more efficiently.
- Secondly, the FAO Oracle system was not configured to incorporate payments made by the WB through a letter of credit. As a result the hard commitments generated when the purchase order was raised in the procurement module could not be transformed into actual paid expenses, whereas the payment had indeed been made by the World Bank for 80% of the procurement value. This situation had two side effects. To start with, it meant that Oracle could not provide accurate information on the budgetary execution since the letters of credit caused a discrepancy between hard commitments and actual payments. Then the production of the PFSs required that the FAO General Ledger accounts be manually

adjusted to reconcile them with the actual disbursement situation. **I recommend that payments through letters of credit be incorporated in Oracle since my staff was informed that this could be done using standard functionality.**

62. – For these reasons, the letters of credit were criticised by the FAO, which not only found them complex to process but also thought that they could frighten off potential bidders as too hazardous a means of payment. Furthermore, it was also considered that they might have an inflating influence on the tender price since the remaining 10% to be paid in the payment schedule was disbursed after final acceptance by the FAO, which can be delayed or even never issued, given the fact that the security situation in Kosovo could suddenly deteriorate.

### **Payments Processed in the Field**

#### *IOV and Imprest Account*

63. – As previously mentioned locally paid expenditures were processed at the beginning of the project through the UNDP IOV system. Headquarters' authorisation for operating one imprest account was subsequently given on 8 August 2000 to the FAO/ECU (since this imprest account was not dedicated for the sole use of the EFRP but to be used for all the FAO operations in Kosovo, it will be referred to as the "FAO/ECU imprest account" from now on). A bank account in DM was subsequently opened on 1 October 2000. However, all payments relating to the preparatory phase continued to be processed through the UNDP IOV. The FAO/ECU imprest account was only used for the implementation phase and the first payment relating to the project was made on 10 October 2000.

64. – The bank account was to be operated on the basis of joint signatories with one officer from the panel A of the signatories and another from the panel B of the signatories. My staff, which was provided with specimen signature forms dated 30 July 2000, noted that this rule was not always adhered to. Some payment orders (for instance four cash payment orders dated 29 November 2000) were signed by two officers from the panel A of signatories. It was explained to my staff that all payment orders were signed by the TL, as he was accountable for the expenditures, but that, as to the other signatory, it was not possible to strictly follow the designation of the panel of signatories for practical reasons.

65. – My staff was subsequently informed by Headquarters that, according to the practice followed since the introduction of the joint signatories rule for all FAO field bank accounts, these could be generally operated under joint signature basis from Panel A or one from Panel A and one from Panel B. They were told that the reason for which the instructions given to the bank in Kosovo differed from the standard practice would be investigated. If appropriate, these instructions would be rectified. Should the investigations prove, however, that the current arrangements be required for some specific reason, the parties concerned would be instructed to abide by them as issued. **I recommend that the matter be solved as soon as possible.**

#### *Approving, Certifying and Authorising Officers*

66. – As far as the breakdown of responsibilities between approving, certifying and authorising officers was concerned, the situation was as follows for the EFRP.

- The TL was the only approving officer for the project. As such, he was authorised to enter into contractual arrangements with third parties, financially obligating the project funds, and subsequently to approve the relevant payment in the limit of the FBAs issued.
- The TL had given authority to seven local specialists to act as so-called "certifying officers": two for local procurement, two for the monitoring, two for the livestock and

veterinary component and one for the mechanisation component. My staff could not, however, be provided with specimen signature forms. Furthermore, if these officers indeed certified that the services or goods to be paid had actually been completed or delivered, they were not certifying officers under FAO financial rules. They did not certify that (i) a spending authorisation existed, (ii) the funds had been allocated for the purpose specified, (iii) were available and that (iv) all of the necessary checks and controls had been carried out.

- As far as authorising/disbursing officers were concerned, the functions were performed by the UNDP for expenses related to the preparatory phase, which were paid through the IOV system and by the designated petty cash cashiers. Once the imprest account was established and the bank account opened, the signatories of the bank account and the petty cash cashiers were the authorising/disbursing officers. However, my staff noted that the function of the authorising officers was not clearly identified. On the FAO/ECU forms payment orders such as cash payment orders, transfer orders and international bank transfer orders, there were no indications of the name and function of the authorising/disbursing officer, who did not even sign the orders. The only signatures mentioned were under the words "certified/ approved by".

67. – My staff also noted that there was no clear segregation of duties since the EFRP TL could act both as approving officer and authorising officer for expenses related to the project, given the fact that he was one of the bank signatories. Although such a situation was quite frequent in FAO field offices because of the limited number of international staff, the risks resulting from the confusion between the functions of approving and authorising officer should not be underestimated, especially when the functions of certifying officer were not properly defined as detailed above.

### **Petty Cash Management**

#### *Preparatory Phase*

68. – For the preparatory phase, the petty cash was advanced and replenished from the UNDP up to DM 1,000. The TL was the petty cash holder, while the NFMS was designated as the petty cash cashier as per the TL's written instructions dated 1 July 2000. As such, the NFMS was the one to maintain petty cash books and issue petty cash replenishment. My staff noted that the opening balance amounted to DM 3,215 as at 1 July 2000, which was above the authorised level of the petty cash. They were told that such was due to large expected first payments to be made for initiating the project (an amount of DM 1,680 was indeed paid for car insurance on 15 July 2000). Replenishments of up to DM 1,000 were subsequently done.

69. – My staff also noted that the petty cash account was closed on 20 December 2000 only and that the petty cash float of DM 1,000 was given back to the FAO/ECU finance office to be submitted to the UNDP. This late closure led to a cut-off problem between the preparatory phase and the implementation phase since expenditures related to the latter were incurred on the petty cash account of the former between 1 October and 24 November 2000. Altogether, they amounted to DM 1,016 and were supposed to be transferred from the preparatory phase to the implementation phase of the project.

### *Implementation Phase*

70. – For the implementation phase, the petty cash was advanced as of 1 December 2000 and subsequently replenished from the FAO/ECU imprest account for a level set at DM 3,000. The TL was the petty cash holder of the project. The NFMS was designated as the petty cash cashier as per the TL's written instructions dated 1 December 2000. My staff reviewed the cashbooks maintained by the NFMS and performed a spot check of the cash and found a DM 5 excess between the cash on hand (DM 2,992) and the cash balance as per the cash book maintained (DM 2,987). The NFMS explained that it was probably caused by rounding since she did not have small change for payment.

### **Cash Payment Orders**

71. – In addition to payments through the petty cash, many suppliers and employees were also paid through cash payment orders since they did not have access to a bank account. Suppliers were given a cash payment order and withdrew the cash directly at the bank, while local staff usually collected their salaries at the bank by presenting their identity cards. However, since many Kosovar citizens did not possess any identity cards, they collected cash at the FAO premises, the cash having been withdrawn previously from the bank by the petty cash cashier or the EFRP or FAO/ECU national Administrative Assistants. In the case of the suppliers, cash payment orders were frequently issued to the Administrative Assistants as payees. This meant that the level of cash actually kept on the FAO/ECU premises exceeded at times the authorised level of the petty cash (the cash was, however, usually withdrawn from the bank on the day of the payment itself). Furthermore, such a situation created risks for the staff either during transportation or in the FAO/ECU premises themselves. It should be noted that theft of cash was common place in Pristina.

72. – While the FAO agreed that cash payments should be avoided as much as possible, it argued that some were inevitable in view of the special situation in the country. My staff was, however, given the assurance that the FAO/ECU would be requested to limit them to strictly necessary and keep the cash on hand to a minimum. Other problems were related to forged bank notes. For instance, the owner of the warehouse in Preoce accused the FAO/ECU of paying the warehouse's rent with forged banknotes. **Since the FAO/ECU was not equipped yet, I would recommend that a bank note detector (for DM and subsequently Euro) be purchased.**

## **PROCUREMENT**

### **PROCUREMENT OF GOODS AND WORKS**

73. – Procurement of goods and works was the subject of a specific review since it was a major source of expenditures in the project. Furthermore, it raised the following management issues:

- the FAO ability to comply with the WB rules and procedures for procurement;
- the extent to which the tenders were open to competition between a sufficient number of bidders; and
- the compliance of the suppliers with the service agreements, in particular with regard to the dates of delivery.

## **Compliance with World Bank Rules and Procedures on Procurement**

### *Rules and Procedures to be Applied*

74. – Regarding procurement of goods, in accordance with the Dutch and IDA TF Agreements (TF 023822 and TF 023907, respectively) the FAO had to abide by the provisions of the "Guidelines for Procurement under [...] IDA Credits" initially published by the WB in January 1995 and subsequently revised. As per Section I, Part B of Attachment I to the Annex to TF 023822 and Schedule 3 of TF 023907, goods and works should be procured under contracts awarded in accordance with the International Competitive Bidding procedure (ICB). Some exceptions to this rule were, however, provided under Part. C "Other Procurement Procedures" as follows:

- Goods, which the Bank agreed could only be purchased from a limited number of suppliers could be procured under contracts awarded in accordance with the Limited International Bidding (LIB) procedures.
- Goods (TF 023822) or technical services (TF 023907) estimated to cost less than US\$ 200,000 equivalent per contract, up to an aggregate amount not to exceed US\$ 200,000 (TF 023822) or US\$ 550,000 (TF 023907) could be procured under contracts awarded on the basis of International Shopping (IS) procedures.
- Technical services estimated to cost less than US\$ 20,000 equivalent per contract, up to an aggregate amount not to exceed US\$ 50,000 could be procured under contracts awarded on the basis of National Shopping (NS) procedures (TF 023907).
- Works estimated to cost US\$ 150,000 (TF 023822) or US\$ 50,000 equivalent per contract up to an aggregate amount not to exceed US\$ 100,000 (TF 023907) could be procured under lump sum fixed prices or unit rate contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation.
- Direct Contracting (DC) was also provided for in TF 023907 for technical services urgently needed.

The TF Agreements also included a part D under which procurement decisions were subject to a review by the IDA. This review included procurement planning, prior review for both ICB and LIB procedures and post review for the remaining procedures.

### *FAO Efforts to Apply the World Bank Regulations*

75. – The EFRP represented the first time that the FAO decided to undertake procurement following another organisation's rules and regulations. The FAO Procurement Service (AFSP) was not familiar, therefore, with WB procurement rules and regulations procedures. As previously mentioned, an IPS was hired to implement them given also the fact that the AFSP did not have the resources. This consultant was the subject of a misunderstanding between both organisations. As per the PIP he was also expected to be responsible for logistics and to be based in Pristina in order to check the delivery of goods at the recipient place. The issue was raised in the aide-memoire issued in September 2000 by the WB supervision team. The TCOR agreed with the fact that the IPS would be based in Pristina but AFSP disapproved of it. As a result, the IPS was mostly based at Headquarters to prepare for the tenders related to the WB funded project in Kosovo.

76. – In fact, the FAO wanted the IPS to carry out his duty by preparing the tenders and tasked a firm to take responsibility for certifying the quality of the delivered items. Inspection by a third party was a standard procedure for the FAO and provided recourse in case of a dispute. This also made sense since the IPS was educated as an agricultural engineer, not as a veterinary surgeon, and many orders concerned medical items. The firm eventually selected was singled out by the FAO as the most cost effective, experienced company and the best staffed with regional representatives to perform spot checks of the items delivered. It was given the task of carrying out inspections at the point of dispatch with the exception of one case (animal feed) where inspection was carried out at the point of receipt. Each mission was billed at actual cost (around US\$ 3,000 per purchase order per on spot delivery for each tender).

#### **Tenders Operated under the LIB Procedure**

77. – My staff examined two tenders relating to the tractor machinery and the cattle herd since they resulted in purchase orders for a value of US\$ 1,923,000 and US\$ 3,468,376, respectively (see table 1 in annex IV). The tendering process for the Central Veterinary Diagnostics Laboratory (CVDL) was also reviewed but not completely because of the late issuance of the purchase order (see para. 84). For these three procurement actions the LIB procedure was applied. Essentially, this procedure differed from the ICB in the sense that the procurement was carried out by direct invitation but without open advertisement. The WB considered the LIB as an appropriate method of procurement when the contract values were small, when there was only a limited number of suppliers or when other exceptional reasons justified departure from the full ICB procedure.

78. – During the preparation of the project it was agreed between the FAO and the WB that LIB rather than ICB procedure would apply considering the emergency nature of the project. The cattle and the tractors had to be delivered by the end of the autumn at the latest. The ICB was ruled out because it would have triggered a time-consuming process with the needed pre-qualification phase and generated additional costs of advertisement. The choice of the LIB procedure had the advantage of sparing any public advertisement and thus processing the tender in a faster way. As a result, the WB procedures were more in line with the existing FAO practices. In fact, both invitations for bids were issued on 13 July 2000, which was prior to the finalisation of the TF Agreements and both tenders were concluded within seven weeks.

#### *Implementation of the LIB Procedure*

79. – The same preliminary procedure for the three tenders conducted under the LIB procedure has been initiated. A technical consultant, who was selected in accordance with the drafted terms of reference, designed the technical specifications of the tender and helped incorporate them into the invitation for bids. He then advised on a short list of companies to be invited to participate and was ultimately a member of the Evaluation Committee that issued a bid evaluation report and an award recommendation. To meet the WB requests, the public opening of the bids was monitored by the Office of the Inspector General (AUD) and an Evaluation Committee was set up. It met at Headquarters and produced an evaluation bid report. In total, my staff noted that the procurement process, which took place for the two bids under the LIB procedure, had been carefully implemented and brought transparency to the bidding process for a project with a high visibility.

*Delivery Deadlines*

80. – The delivery of the cattle was completed within the deadline included in the contract. Nevertheless, the delivery of the tractors and implements was delayed to 8 November 2000. Firstly, the supplier took full advantage of the standard WB contractual provisions, which provide for 30 days for the signing of the contract. Secondly, the supplier rescheduled its delivery until the letter of credit was operational on 3 November 2000. As a result, it was necessary to amend the procurement contract on 2 November 2000 in the sense that the starting date of the delivery deadline became the operative date of the letter of credit instead of the date of delivery initially mentioned in the contract.

*Responsive Bidders*

81. – The LIB might have been justified also on the grounds that few suppliers were able to respond to the invitation for bids. Only four out of the ten companies invited submitted a bid for the cattle and three out of ten for the tractors and implements. This low rate of bids resulted from the tight deadlines enclosed in the invitation for bids (which were due to the seasonal requirements of the inputs) and also from the technical specifications. It was not obvious to my staff that public advertisement under the ICB procedure would have allowed for a higher number of contenders not registered in the invitation list.

*Other Comments on the Tenders*

82. – My staff noted that the contract concluded with the firm for the provision of tractors and implements did not allow for the provision of a sufficient number of spare parts at a reasonable price for the beneficiaries. The risk was, therefore, that the beneficiaries jeopardised their warranty by buying cheap locally but inadequate spare parts. My staff was, however, subsequently informed that this issue had been addressed by the FAO.

83. – The WB demanded that invitations to bidders originating in a country where cases of mad-cow disease had been declared be excluded. This requirement was duly followed. However, only bidders from countries where the disease was officially declared at the time of the selection could be excluded. In the case of the supplier eventually selected it happened that the disease was only declared officially in the country of origin of some of the cattle it provided after the bid was awarded. For this reason, the cattle imported to Kosovo for the project could not be regarded as entirely safe from any risk of Bovine Spongiform Encephalopathy (BSE) infection. While admitting that it was not possible to guarantee that the cattle were free from BSE, the FAO ensured my staff that it had taken every possible step including having the supplier arrange for the deposit of blood samples with the national laboratory of its country of origin, so that when a test became available, these samples could be utilised to demonstrate conclusively whether there was any risk of epizootic.

### *Central Veterinary Diagnostic Laboratory*

84. – As previously mentioned, the third LIB tender under preparation at the time of the review was related to the rehabilitation and re-equipping of the Central Veterinary Diagnostic Laboratory in Pristina. The purchase order was not signed before April 2001, although the procurement plan included in appendix XII of the Agreement between the UNMIK and the FAO expected the contract to be signed by the end of November 2000. In fact, the technical consultant in charge of preparing the tender was not hired before November 2000. These delays owed much to difficulties in reaching an agreement on the ownership and control of the laboratory. The procurement process was also complex since around 1,200 different items were necessary to fully equip the laboratory. Since many of these items originated from very specialised suppliers and, in some instances, were required in minute quantities only, a consolidated tender was issued. Invitations to bid were issued to 11 potential suppliers but only one bid was received. My staff considered that the delays in this operation might turn out to be troublesome since the laboratory was a key element in tracking any risk of epizootic that might affect the cattle delivered.

### **Tenders Operated under the IS Procedure**

#### *Implementation of the IS Procedure*

85. – My staff reviewed the four tenders processed under the IS procedure for cattle identity eartags, veterinary drugs and equipment and artificial insemination (see table 2 in Annex IV for details). As previously mentioned the IS was provided for in the TF Agreements for goods (TF 023822) or technical services (TF 023907) estimated to cost less than US\$ 200,000 equivalent per contract, up to an aggregate amount not to exceed US\$ 200,000 (TF 023822) or US\$ 550,000 (TF 023907).

#### *Responsive Bidders*

86. – As detailed in the table 3 that follows, the tenders under the IS procedure have experienced a limited rate of responsive bidders. In the specific case of the veterinary drugs (two responsive bidders only), my staff noted that bidders got confused by the WB regulations prohibiting the quotation of brand names in the invitation. As only ingredients, dosage and treatments were outlined, the invitation to bid was found misleading. To my staff's knowledge, at least one company present in Kosovo decided not to quote as a result.

**Table 3: Responsive bidders to tenders under the IS procedure**

| <b>Tenders/process</b>  | <b>Invitations</b> | <b>Received bidders</b>   | <b>Responsive bidders</b> |
|-------------------------|--------------------|---------------------------|---------------------------|
| Cattle ear tags         | 7                  | 1 (1 requested extension) | 1                         |
| Veterinary drugs        | 6                  | 3                         | 2                         |
| Artificial insemination | 6                  | 3                         | 3                         |
| Veterinary equipment    | 6                  | 4                         | 3                         |

#### *Delivery Deadlines*

87. – Regarding delivery deadlines my staff noted that the contract regarding the supply of veterinary drugs was not fully implemented within the time schedule foreseen in the invitation to bid since the sets of drugs were not entirely available in time in the supplier's warehouse or would have expired within the expected consumption period. This resulted in a time-lag between the delivery of the cattle in October/November 2000 and the delivery of the drugs in December 2000 (see paras. 102 to 105). This delay was not entirely the supplier's fault since it resulted partly from the difficulty in reaching an agreement on amendments to be made to the list given the shortage of some drugs. This point was made even more difficult by the WB regulation to prohibit brand names to avoid any breach of competition.



### **Tenders Operated under the NS procedure**

88. – My staff reviewed the only tender processed under the NS procedure, which was related to cattle feed concentrate (see table 3 in annex IV). Since the awarded bid amounted to US\$ 211,906 the tender was a breach of provision I-C-3 of Schedule 3 of TF 023907 which stipulated that the NS was "*an appropriate procurement method for technical services estimated to cost less than US\$ 20,000 per contract up to an aggregate amount not to exceed US\$ 50,000*". A legal basis for applying the NS procedure to this tender was, however, provided for in the procurement plan included in Appendix XII to the Agreement between the UNMIK and the FAO. Furthermore, since this bid was related to the supply of cattle feed concentrate, it made sense to source it locally and help farm feed mills.

89. – The NS procedure raised the following difficulties for this contract.

- The selection of a domestic supplier demanded specific checks from the PMT to assess the capacity of the bidders to actually meet the delivery deadline and quantities requested. On the basis of the reports from the field the lowest bidder was not the one chosen. The supplier eventually selected was an import/export company located in Pristina. However, the feed concentrate itself originated from another country.
- Since the quality of the cattle feed concentrate supplied was a matter of concern, the firm in charge of the inspection decided to send a sample to a laboratory for analysis. On that basis, the certification was finally awarded.

### **Review of the Procurement Actions by the WB**

90. – As far as the involvement of the WB in the procurement process was concerned, the procurement plan could be considered as having been approved by the WB since it was included in Appendix XII to the Agreement between the UNMIK and the FAO. As previously mentioned the procurement plan detailed the selected procedures to be applied to each tender. For the review of the actual procurement process, the situation was as follows:

- Regarding the tenders awarded under the LIB procedures, the WB was consulted and issued its opinion on both the award recommendation and the draft contract. The contract for delivering 30 additional heads of Simmental was even suggested by the WB in order to take advantage of spare capacity in the last flight to Pristina.
- Tenders under IS procedure were only subject to a post-review by the WB. However, the WB issued a no objection review for the tender related to the veterinary drugs, given the low number of bidders.

On the whole, I am of the opinion that the WB was associated in due time with the procurement process, including changes in the procurement plan and budget lines.

### **Final Comments on the Procurement of Goods**

91. – A further comment on procurement was relating to the issue of delivery deadline. Since the usual starting point for delivery deadline was the signature date, the supplier was in the position to extend this deadline by postponing its signature of the contract after having received the notification of award and the purchase order (as the supplier of the tractors did by taking 30 days to sign the contract). In some circumstances, my staff noted that delay in signing the contract indeed resulted from the shortage of a category of products and the subsequent discussions with the FAO to agree on a substitute. This point was of first importance when the award was based on the best delivery prime factor. The various invitations for bids and invitations to quote stressed the need for tight delivery deadlines, thus reducing potentially the number of bidders. **Since experience showed that the delivery**

**deadlines set were not always met, I recommend that a more realistic approach be taken for future deadlines.**

#### EMPLOYMENT OF CONSULTANTS

##### **Selection of Consultants**

92. – As per both TF Agreements as well as the Agreement between the UNMIK and the FAO, consultants' services had to be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" initially published by the IDA in January 1997 and subsequently revised. The standard procedure applicable was the Quality and Cost-Based Selection (QCBS) of consultants. The following other procedures were, however, mentioned in all the agreements:

- Quality-Based Selection (QBS) for services for management of farm machinery repairs;
- Single Source Selection (SS) for services for project management, support in cattle distribution and follow-up with machinery delivery;
- Individual Consultants (IC) for agricultural advisory services and other tasks.

Like for the procurement of goods and works, the agreements provided for, depending on the conditions and amount of the contracts, either a prior review or a post review by the IDA.

93. – My staff reviewed the tender processed for capacity building services to be provided to the Department of Agriculture under the capacity building component (component 4), which was processed under the QCBS procedure (see table 4 in annex IV). The design of the tender was based on a preliminary consultancy report, which was completed on 4 July 2000. My staff noted that the tender raised the following issue of conflicting interests in the awarding procedure. One of the bidding firms, which was given the responsibility of the first consultancy mission relating to mechanisation in the EFRP preparatory phase, used to employ several consultants involved in the project, including the Procurement Officer, the international Mechanisation Officer and the Head of the FAO/ECU in Kosovo. Furthermore, the international Livestock Officer was still under contract with the firm at the time of the tender. The firm scored above 80 points on the selection and its application was considered so good that, according to TCOR, it could cast doubts on alleged leaks of internal documents or information. The exclusion of the firm from the bid was contemplated within the FAO. It was, however, finally decided not to exclude it from the tender on the grounds that no evidence of inside knowledge could be put forward and that the capacity building component was fully independent from the other components of the project. Eventually, the firm's financial offer remained unopened for the reason that its technical offer was deemed to not meet the project's needs.

##### **Selection of Sub-consultants (NGOs Service Agreements)**

###### *Status of the LOAs signed with NGOs*

94. – As per section 507 of the FAO manual, LOAs were not processed through the procurement services (AFSP) and not subject to FAO procurement rules and procedures. This situation was justified on the grounds that LOAs with NGOs responded to emergency issues and had less chance of being a cause for legal contest than contracts for procurement signed with companies. The authority to approve the issuance of LOAs had been conferred on Heads of Departments and Heads of Offices. However, should any substantial variations from the standard format set in Appendix A to section 507 of the FAO manual exist, the LOA had to be submitted to AFSP. My staff was informed that this was seldom the case. All copies of signed LOAs also had to be forwarded to the Chief, AFSP.

95. – As previously mentioned and detailed in table 2 of annex III, five LOAs had been concluded at the time of my staff's review in November 2000: three for the preparatory phase and two for the implementation phase. The following was noted for the latter:

- The LOA with the Miridija Farm was signed by the Co-Head of the UNMIK Department of Agriculture. The Miridija Farm was a former co-operative farm, whose current status was not obvious. It was regarded by the FAO as a non-profit organisation even it was not registered in Kosovo as a NGO as such.
- The draft letter of agreement with GOAL was submitted to the WB for approval and also submitted with justification to the FAO Director-General as per section 507.4 of the FAO manual since it exceeded the US\$ 100,000 ceiling.

## **IMPLEMENTATION OF THE FOUR COMPONENTS OF THE PROJECT**

### **COMPONENTS OF THE PROJECT UNDER SCRUTINY AND AREAS OF CONTROL**

96. – My staff reviewed the implementation of the project with a focus on the livestock. With the exception of component 4 (capacity building) which had still not been implemented locally, the implementation of all the other components was reviewed:

- Component 1: support to re-establishing the cattle herd.
- Component 2: rehabilitation of veterinary services.
- Component 3: farmer machinery repair and replacement.

My staff carried out their investigations in both the FAO/ECU offices in Pristina and in the field. There were three municipalities where each of the three components was implemented. The team selected two of them, Decan and Glogovc, which had different NGOs as implementing agencies. The spot checks were performed during the period from 26 February to 9 March 2001. With the exception of the delivery of the cattle for which a procedure was documented by the international livestock consultant, these tests could not be considered as compliance audits as such, since no procedure was written down. The following paragraphs present the main findings (see annex V for the tests' features and detailed results).

### **Component 1: Support to Re-establishing the Cattle Herd**

#### *Deficiency in the Identification of the Cattle*

97. – One of the tests consisted of verifying that the delivery and distribution of cattle complied with the procedures as stated in the "cattle delivery procedures" issued on 28 September 2000 by the FAO Livestock and Health Team. The results of the test showed that identification of the cattle delivered did not offer complete reliability. At the time of the audit, the exhaustive list of the cattle selected established by the selection team with European Union (EU) and WB ID numbers could not be supplied to my staff in Pristina. In addition, my staff could not find evidence that the list mentioning the EU and WB ID numbers of the cattle transported by plane had been sent to the national livestock specialist in Pristina prior to the delivery air-flight (except for the first delivery air-flight for which my staff was provided with a copy of the list of the cattle selected). In this absence, my staff was not in the position to ascertain that the cattle delivered was indeed the cattle selected since reconciliation with both EU and WB ear tag numbers was not possible for identification purposes.

*Shortcomings in the Monitoring System*

98. – The tests conducted on the reporting system indicated that the farm records were not properly filled in by the farmers. Regarding the monitoring system by the implementing agencies, the monitoring activity, even if well designed, remained basically an administrative follow-up. Advice and technical support given to the beneficiaries remained insufficient. These shortcomings were recognised by the FAO, which, however, pointed out that the lack of education of some of the farmers and that the remedial actions taken (training courses for the beneficiaries, checking and amending of records by the technicians/specialists when visiting) were the maximum that could be done with the available staff. My staff considered that these shortcomings might harm the genetic improvement policy that was at the heart of the cattle herd component. This prevented the FAO from keeping track of the health and feeding conditions as well as of the milk production of the cattle delivered. This also limited the FAO's ability to control how the beneficiaries took care of the cattle delivered, thus to assess the effectiveness of the cattle herd rehabilitation.

*Lack of the Central Veterinary Diagnostic Laboratory*

99. – Health controls on bulls relating to the risk of venereal disease transmission were unlikely to offer adequate reliability given the fact that the Laboratory had not been built yet. It was essential to the implementation of the veterinary's obligations in respect of bulls since the contracts with the veterinary practice stated that a prepuce swab must be taken every three months for laboratory tests. Therefore, no systematic examination of bulls after the first service could be provided for.

**Component 1 and 2: Veterinary Drugs**

100. – Drugs concerned both components 1 and 2 of the project as they were distributed to veterinary surgeons that had contracted with the FAO for the EFRP. Under component 1, nine veterinary surgeons provided veterinary services for the imported livestock. Under component 2 related to the rehabilitation of the veterinary service, 28 veterinary surgeons provided veterinary services for the local cattle. The nine veterinary surgeons that contracted under component 1 also contracted under component 2.

*Absence of an Audit of the Delivery of Veterinary Drugs*

101. – The delivery and distribution of drugs could not be subject to an audit. Although the contracts signed by the veterinary surgeons included a list of drugs provided, this list could not be reconciled with the drugs supplied at Pristina airport since my staff was only provided with three waybills relating to the five palettes of drugs supplied in connection with the cattle suppliers warranty provisions to cover the period of quarantine and subsequent 25 days. It was not possible to get the supporting document for the alleged 28 received palettes constituting the first tranche of veterinary drugs for distribution to veterinary practices in the field. Furthermore, my staff could not make an inventory of the remaining drugs, if any, since the FAO/ECU warehouse was not accessible.

*Late Delivery of Veterinary Drugs*

102. – Since the drugs for the livestock component were delivered at Pristina airport on 2 December 2000 only, they could only be delivered to the veterinary surgeons involved in component 1 from that date onwards. This situation could have turned out to be embarrassing for the health condition of the imported cattle since it had been delivered in October and November 2000. A solution was found under a private agreement according to which contracted veterinarians could buy or borrow drugs from a local supplier (payment in kind with the drugs provided ultimately by the FAO being allowed). The local supplier was a

veterinary surgeon employed by the supplier of the cattle delivered to vaccinate the imported cattle in the holding station, some vaccinations being prohibited within the European Union.

103. – Spot-checks enabled my staff to observe that private arrangements for the supply of drugs from the local supplier had been made for the three veterinary stations visited. In Prejlep, the veterinary produced a list of the drugs received from the local supplier for a value of DM 3,659. For stations 1 and 2 in Gllogovc, the veterinarians did not produce any documents but alleged that they borrowed drugs from the local supplier for an amount of about DM 3,000.

104. – To my staff's knowledge, the supply of drugs under these private arrangements was only documented in page 8 of the report issued by the international specialist for the livestock component on his fifth mission (9 October – 11 November, 2000): "*A precaution was taken by the ILS prior to the heifer and bull distribution. [...] The cattle supplier's veterinary representative has given credit for the purchase of essential drugs to each contracted veterinary practice for the support of the imported cattle after distribution (on farm). This private arrangement will be paid when the nine practices receive their first payment for the veterinary contract and their first veterinary drug pack on the team leader's return on 18 November 2000.*" The TL confirmed that, to his mind, "*the EFRP has not committed itself regarding the borrowing of drugs and payment to the supplier, as it was a private arrangement between the supplier and the veterinary surgeons*".

105. – These agreements for the supply of drugs did not commit the FAO. However, veterinarians from the stations 1 and 2 in Gllogovc explained to us that they expected to get the drugs either paid to the supplier or paid back to them by the FAO. These private agreements for the supply of drugs were likely to have included all or most of the veterinarians involved in component 1. As these agreements were private and not binding for the FAO, my staff was not able to obtain them. It was, however, their opinion that these private agreements might give rise to contest and lead to demands for payments by the FAO either to the supplier or to the veterinary. If one assumed that the private agreements amounted on average to DM 3,000, the financial risk might reach DM 27,000. This risk was limited in comparison to the value of the imported cattle (US\$ 3,468,376 for 2,462 heads) which might have been wasted by drug shortage.

### **Component 3: Farmer Machinery Repair and Replacement**

106. – During the field visit, my staff focused on the delivery of new tractors and implements. The old tractors repair programme implemented by the NGO was not under review during the field visit for the reason that the selection of beneficiaries and tractors to be repaired was completed on 31 October 2000. The supply of spare parts and repair service only started on 18 November 2000. However, two tests were performed. The first one, which consisted of spot checking whether new tractors and implements had actually been distributed, did not reveal any discrepancies. The same applied to the second one, which consisted of checking whether primary beneficiaries of new tractors fulfilled their commitment vis-à-vis the secondary beneficiaries.

### **Component 4: Capacity Building**

107. – Since the capacity building component had not started in the field as at March 2001, it remained to be seen whether the emergency delivery of cattle and machinery might lead to a sustainable rehabilitation and development of agriculture in Kosovo.

### **Distribution to Minorities**

108. – For the distribution to minorities, it was agreed in May 2000 between the WB and the UNMIK that the Department of Agriculture (DOA) within the UNMIK would be responsible for selecting beneficiaries and that the FAO would be responsible for the distribution and the monitoring of assets. The DOA along with a Serbian NGO as implementing agency made the selection of beneficiaries. According to a report issued by the DOA, the selection and the distribution process was delayed because of travelling difficulties between the enclaves. The distribution that concerned 10% of the imported cattle and 10% of the imported new tractors (i.e. 230 heifers, three bulls and 12 tractors) was finally completed. For that purpose, the FAO hired a technician from the Serbian minority. At the time of the control, he had visited 110 out of 242 beneficiaries. Since 15 February 2001, he had not been able to leave his residence located in a Serbian enclave due to security reasons. My staff was advised not to visit Serbian enclaves because of the security situation at the time of the mission.

### **Overall Assessment**

109. – It was a hard task to implement the project since the imported cattle and machinery had to be distributed to many individual beneficiaries within a short period prior to the on-set of winter. To this extent, the implementation of the project proved to be successful as shown by the inputs delivered so far thanks to the dedication and professionalism of staff involved in the management and technical backstopping of the project in the field. It should be noted, however, that:

- Distribution of cattle and machinery on the spot did not guarantee in itself the success of the project in the long run.
- Absence of the Central Veterinary Diagnostic Laboratory as well as shortcomings in the monitoring of the veterinary activity did not allow for full protection from the risks related to a potential epizootic.
- Failure of the beneficiaries to register data on the farm records might harm the genetic improvement policy.

Definitive effectiveness of the project can only be assessed after a three to five year period following the delivery of cattle.

110. – Part of the administrative difficulties encountered by the FAO in managing this project resulted from the fact that it entered into an agreement that required it to apply the rules and reporting formats of the WB, which in many instances differed from its own. Although the FAO agreed to depart from its normal practices and procedures, the practical consequences of doing so were not all anticipated. **Should the Organization be faced with similar requirements in the future, I would recommend that a thorough evaluation of the practices and procedures to be applied and their consequences be conducted prior to the conclusion of the agreement.**

**Acknowledgement**

111. – I wish to record my appreciation of the cooperation and assistance extended by the Director-General and his staff during the audit.



François LOGEROT  
Premier président de la Cour des comptes  
de la République française,  
External Auditor

14 November 2001

## **ANNEX I: BACKGROUND INFORMATION ON THE EMERGENCY FARM RECONSTRUCTION PROJECT (EFRP) IN KOSOVO**

### **Project Objectives and Components**

The EFRP in Kosovo aims to help jumpstart agricultural production over the next two cropping seasons and to re-launch the rural economy by investing in key farm assets (cattle and farm mechanisation) and key agricultural services (veterinary services and capacity building). The project is comprised of the following five components:

- The **cattle herd component** (US\$ 11.8 million) consists of the distribution of cattle to the selected beneficiaries who will be also provided with after-delivery service (veterinary services, feed concentrate and artificial insemination).
- The **rehabilitation of veterinary services component** (US\$ 1.3 million) includes provision of veterinary and artificial insemination equipment, drugs and training to restore animal health services (private and public) in Kosovo.
- The **farm machinery and replacement component** (US\$ 7.9 million) deals with the repairs of lightly damaged tractors as well as the provision of new tractors and critical farm machinery.
- The **capacity building component** (US\$ 0.9 million) aims to support the newly established Department of Agriculture of the Joint Interim Administrative Structure through the provision of national and international expertise.
- The **project management component** (US\$ 3.1 million) aims at establishing and supporting a Project Management Team (PMT) placed under the umbrella of the FAO Emergency Coordination Unit (ECU) in Pristina to implement the activities in collaboration with Non-Governmental Organisations (NGOs).

### **Projects Costs and Financing**

The project, with a total cost of US\$ 25 million, was to be implemented in eight municipalities most highly affected by the recent conflict, in two distinct phases:

- One **preparatory phase** to outline the project and set up an implementation team which should assess the needs and select the beneficiaries. This phase ended on 30 September 2000.
- One **implementation phase** to start on 1 October 2000.

At the time of the conclusion of the Agreement between the UNMIK and the FAO, the following financing had been secured:

- The preparatory phase was to be funded by the International Development Association (IDA) in the form of a grant not exceeding US\$ 565 000 according to the Grant Trust Fund (TF) Agreement 023448 of 16 April 2000.
- The initial implementation phase was to be funded by the IDA and the Dutch Government (through the IDA as Administrator) for US\$ 10 million (Grant TF Agreement 023907 of 25 July 2000) and US\$ 1.8 million (Grant TF Agreement 023822 of 23 June 2000), respectively. These two grants would finance all the project's components with, however, the implementation of the cattle herd component and of the farm machinery and replacement component being limited to three out of eight municipalities.

The subsequent implementation phase (US\$ 12.635 million) would consist of the extension of the implementation of the two above-mentioned components to another five municipalities. This phase had no definitive funding yet.



## ANNEX II: DESCRIPTION AND RESULTS OF THE TESTS CONDUCTED FOR THE LOCALLY PAID EXPENDITURES

*Reconciliation of the overall amount of expenditures recorded in the FAO books of accounts with the amount of expenditures reported to the WB.*

My staff reconciled the overall amount of expenditures recorded in the FAO books of accounts with the amount of expenditures reported to the WB. It should be noted that expenditures paid in June 2000 were included in the SOE for July since there was no SOE for June. As detailed in the table that follows, a discrepancy of US\$ 20 was noted. It was due to an exchange difference as explained in details by the TL as follows: "*the discrepancy resulted from the registration of invoice 189/2000 on the SOE of July, which [was] a reversal of charges given in the SOE with the amount of \$2,241. This invoice [was] related to the purchase of two Air Conditioner Units at a cost of DM 5,000 each in April 2000. This invoice was recorded with the exchange rate of US\$ 1 = DM 2,05558 instead of DM 2,0399*".

**Comparison between EFPR expenses for 2000 as stated by SOEs and by EFRP transaction listings by budget line in US\$**

|                      | (a) Local SOEs | (b) FAO Expenses (1) | (a) - (b) |
|----------------------|----------------|----------------------|-----------|
| Preparatory phase    | 58,469.91      | 58,449               | 20        |
| Implementation phase | 116,203.68     | 116,204              | 0         |
| Total                | 174,673.59     | 174,653              | 20        |

(1) According to EFRP transactions listings by budget line

As far as expenditures relating to the local personnel charged to the EFRP management team were concerned, SOEs were filled in on the basis of an extraction from the list of payments for staff and casual workers (which included salaries of casual workers, hazard payments, overtime and daily subsistence allowance).

Three discrepancies relating to personnel expenditures between SOEs and imprest accounts were noticed for the month of November 2000. They were a consequence of late collection of salaries that were reported the following month in the imprest account returns. These discrepancies were reconciled. The UN monthly exchange rate was used for establishing the SOEs, except in June 2000, where the July 2000 UN monthly exchange rate was used instead, given the fact that the payment requests issued to UNDP in June 2000 were actually disbursed in July 2000.

### *Checking of supporting documents for the locally paid expenditures*

In the October 2000 SOE for the implementation phase, an amount of DM 8,800 was reported to have been paid to veterinary surgeons for training sessions within component 1 of the project. The related supporting document showed that some signatories signed for other veterinary surgeons on the day of the cash payment. According to the EFRP TL, it was indeed true that two veterinary surgeons signed for another two and obtained the cash payment for the veterinary training for farmers. In fact, the veterinary surgeons concerned had informed the NFMS by telephone that they could not come to collect their payment and had, therefore, requested that the payment be made to whoever signed on their behalf. Subsequently, the veterinary surgeons (on whose behalf money was collected) came to the office and confirmed that they had received the money.

*Reconciliation of the SOEs produced by the FAO with actual locally paid expenditures*

Expenses reported under SOEs were checked against the UNDP IOV and the bank statements (once the imprest account was established), respectively. No discrepancies were noted.

*Checking that the expenses charged to the EFRP were actually related to this project*

While checking that EFRP expense were indeed related to the project, my staff noted the following:

- Following Headquarters' instructions, the TL approved expenses amounting to DM 3,218 for travel expenses relating to a study tour in Albania for an officer and two national experts from the UNMIK (DOA). These expenses were paid on 27 December 2000 by baby project 2 (field project management team) under the code 5920 (training). This study tour was also cleared by the WB, in accordance with the e-mail dated 4 October 2000 from the WB to an UNMIK DOA expert, which stated that "*the Bank has no objections to this study tour trip up to an amount of \$ 10,000 to be funded out of the resources allocated to the DOA capacity building under the EFRP*". Although the DOA was the key partner of component 4, the payment of a study trip for one international and two local experts from the DOA may not be considered as having to be charged to the project as its input to the EFRP may be questioned given the fact that component 4 has not yet reached an operational phase on the spot.
- An amount of US\$ 1,000 of bank charges relating to the opening of the ECU imprest account were charged totally to the EFRP on 31 October 2000 (October SOE for the implementation phase) on the grounds that EFRP consumed more in the UNDP transactions than the other ECU projects.
- Five drivers were hired for the project. These drivers were in a pool with the other FAO drivers but were dedicated in priority to EFRP tasks. Overtime was documented by travel authorisations, funded by the FAO/ECU and charged back to each project budget according to the task assigned to the driver.

*Checking the correct breakdown of actual expenses between the four components of the project and between both phases of the project*

*Breakdown between the preparatory phase and the implementation phase*

As previously mentioned in para. 73, some expenditure relating to the implementation phase were incurred on the petty cash account of the preparatory phase. These expenditures, which occurred between 1 October and 24 November 2000, amounted to DM 1,016. They were supposed to be transferred from the preparatory phase to the implementation phase of the project.

*Breakdown between the four components of the project*

The breakdown between the four components of the project could not be checked in Pristina since locally produced SOEs were not based on a breakdown by component. However, my staff noted that the expenses relating to a study tour of UNMIK DOA's experts in Albania were not allocated to component four of the project (capacity building) in the PMR submitted for the last quarter of 2000 (no expenses were in fact stated on that line of the PMR).

**ANNEX III: VARIOUS TABLES****Table 1: Field Budget Authorisations  
For the preparatory phase**

| Baby projects   | Description                                      | Main items   | FBA code (Oracle) | WB project code at FAO/ECU |
|-----------------|--|--|-------------------|----------------------------|
| Baby project 2  | Project management team                          | General local staff 5301<br>drivers/administrative<br>accountant                                     | TF2Z190200045     | OSRO/KOS/915/WB-1          |
| Baby project 4  | National Consultants and technical assistance    | 5543 five assistants<br>livestock/farm<br>machinery/policy<br>expert/monitoring/rural<br>sociologist | TF2Z190400045     | OSRO/KOS/915/WB-2          |
| Baby project 8  | Equipment for the project implementation unit    | Non expendable equip<br>Expendable equipment<br>5933<br>Furniture 5925                               | TF2Z190800045     | OSRO/KOS/915/WB-3          |
| Baby project 9  | Livestock component repair of quarantine station | Expendable equipment<br>5922   | TF2Z190900045     | OSRO/KOS/915/WB-4          |
| Baby project 11 | GOE general operating expenses                   | Telephone 6255<br>Miscellaneous 6152<br>Vehicles 6175  | TF2Z191100045     | OSRO/KOS/915/WB-5          |

**For the implementation phase**

| Baby projects  | Main items          | FBA code (Oracle) | WB project code at FAO/ ECU |
|----------------|---------------------|-------------------|-----------------------------|
| Baby project 2 | General local staff | TF2Z90200131      | OSRO/KOS/009/WBK            |
| Baby project 4 | Consultants         | TF2Z90400131      | OSRO/KOS/009/WBK-1          |

**Table 2: Past and current letters of agreement with NGOs**

| NGOs                                      | Phase <sup>1</sup> | Tasks  | Area                                       | Date of the LOA | Amount in US\$ '000 |
|---|--------------------|--|--|-----------------|---------------------|
| MCI (USA)<br>Mercy Corps<br>International | P                  | Selection of villages and primary, secondary and final beneficiaries   | 1 mun.<br>Decan                            | 14 July 2000    | 69.79               |
| AAH Action<br>against Hunger<br>(UK)      | P                  | Selection of villages and primary, secondary and final beneficiaries   | 2 mun.<br>Skender<br>aj<br>Gllgoc          | 3 Aug. 2000     | 139.58              |
| Miridija Farm<br>(Kosovo)                 | P                  | Repair of the buildings to accommodate the holding of 2 300 pregnant heifers and breeding bulls.   | Miridija<br>Farm,<br>Fush<br>Kosovo        | 4 Aug. 2000     | 6.85                |
| GOAL Ireland                              | I                  | Assessment of the farm machinery status<br>distribution of tractor spare parts through a voucher system,<br>repair service and workshops | 3 mun.<br>Decan<br>Skender<br>aj<br>Gllgoc | 8 Aug. 2000     | 765                 |
| Miridija Farm<br>(Kosovo)                 | I                  | Within the cattle stock component, to hold the consignments of imported cattle for a duration of five days per consignment               | Miridija<br>Farm,<br>Fush<br>Kosovo        | 8 Aug. 2000     | 33.35               |

<sup>1</sup> P: Preparatory phase. I: Implementation phase.

**Table 3: costs relating to the sharing of the building with the WFP in Pristina**

| Expenses                    | ex Kosovdrvo building       | FAO  |
|-----------------------------|-----------------------------|--|
| <i>Occupied area</i>        | <i>approx 829 m2 (100%)</i> | <i>approx 290m2 (35%)</i>                                |
| Public utilities            | 100%                        | 35%  |
| Telephone lines             | Own lines                   | Own lines  |
| Generator                   |                             | 35% of the diesel bill<br>35% of the generator attendant |
| Security                    |                             | Four extra guards  |
| E-mail and internet access  | US\$ 1,000/month            | US\$ 200/month period1<br>US \$250/month period2         |
| Radio room, telecom support |                             | US\$ 1,027/month   |

**ANNEX IV: PROCUREMENT****Table 1: Tenders operated under the LIB procedure**

| Tender code                          | Number of bids received | Winning bidder | Amount in US\$   | PO No and date          | Expect. Delivery         | Actual delivery                     | Payment   |
|--------------------------------------|-------------------------|----------------|--|-------------------------|--------------------------|-------------------------------------|---|
| LVSTK 001<br>cattle and bovine semen | 4                       | X              | 3,284,236<br>(for 2,300 heads)<br>amended to<br>3,468,376<br>(for 2,432 heads) | 85385<br>5 Sep.<br>2000 | From 22<br>Sept.<br>2000 | From 30<br>Sept. to 09<br>Dec. 2000 | Final amount:<br>US\$ 3,463,704<br>for both POs<br>and after<br>allowances for<br>losses)                                   |
| Additional<br>30 cattle              | 1                       | X              | 41,850<br>(for 30<br>add.<br>heads)  | 88658<br>7 Nov.<br>2000 |                          | Complete<br>on 9 Dec.<br>2000       |   |
| MECH 001<br>Tractors and implements  | 3                       | Z              | 1,923,000  | 86856<br>5 Oct.<br>2000 | Early<br>Dec.<br>2000    | Completed<br>on 12 Dec.<br>2000     | Initial 10%<br>payment on 31<br>Oct. 2000 -<br>Letter of credit<br>rel. 31 Dec.<br>2000<br>Remaining<br>10% still<br>unpaid |
| CVDL                                 |                         |                |  |                         |                          |                                     | Not finalised at the time of the review   |

**Table 2: Tenders operated under the IS procedure**

| Tender code                              | Date of receipt of the bid | Winning bidder | Amount in US\$ | PO No and date          | Expected Delivery                            | Actual delivery                              |
|--|----------------------------|----------------|----------------|-------------------------|--|--|
| CATID 001<br>cattle ID eartag            | 25 Sept.<br>2000           | A              | 4,638          | 88692<br>08 Nov. 2000   | Within 45<br>days                            | 4 Dec. 2000                                  |
| VET DRUG<br>001 veterinary<br>drugs      | 4 Aug.<br>2000             | B              | 113,291        | 85 683<br>11 Sept. 2000 | 27 Oct.<br>2000                              | 24 Nov.<br>2000 and 28<br>March 2001         |
| VET AI 001<br>artificial<br>insemination | 4 Aug.<br>2000             | C              | 126,101        | 85 687<br>11 Sept. 2000 | 24 Nov.<br>2000 (1 <sup>st</sup><br>tranche) | 23 Nov.<br>2000 (1 <sup>st</sup><br>tranche) |
| VET EQUIP<br>001 veterinary<br>equipment | 4 Aug.<br>2000             | D              | 152,334        | 85 791<br>13 Sept. 2000 | 24 Nov.<br>2000                              | 24 Nov.<br>2000                              |

**Table 3: Tenders operated under the NS procedure**

| <b>Tender code</b>  | <b>Bids received</b> | <b>Winning bidder</b> | <b>Amount in US\$</b> | <b>PO No and date</b>     | <b>Expected Delivery</b> | <b>Actual delivery</b> | <b>Payment</b> |
|---|----------------------|-----------------------|-----------------------|---------------------------|--------------------------|------------------------|----------------|
| NS/FEED/001<br>(972.8 MT of<br>cattle feed<br>concentrate)* | 8                    | E                     | 211,906               | 86 908<br>06 Oct.<br>2000 | 18 Dec.<br>2000          | 26 Nov.<br>2000        | 16 Jan. 2001   |

\* A "balancing order (to fill up a partially empty truck) was issued for 12 MT (PO 89676 for US\$ 2,490.44).

**Table 4: Selection of consultants**

| <b>Procedure</b> | <b>Tender's object</b>    | <b>Tender code</b> | <b>Contract signed on</b> |
|------------------|---------------------------|--------------------|---------------------------|
| QCBS             | Capacity building for DOA | QCBS/RFP/001       | 11 May 2001               |

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**ANNEX V: DESCRIPTION AND RESULTS OF THE TESTS CONDUCTED****COMPONENT 1: SUPPORT TO RE – ESTABLISHING THE CATTLE****Distribution of the cattle to the beneficiaries***Test 1: Cattle identification*

For cattle identification, the test consisted of verifying both the WB Identity (ID) number and the European Union (EU) ID number. Both ID numbers were read on the three ear-tags attached to each cow. To start with, these ID numbers were reconciled with the copy of the pedigree and with the farm records (green card) held by the farmer. Then, my staff checked the following at the FAO/ECU premises in Pristina:

- the EU ID number on the original pedigree,
- both the WB ID number and the EU ID number on the delivery list at the airport,
- the WB ID number on the list of incoming cattle at the Miridja Farm quarantine station,
- the WB ID number on the user agreements signed by beneficiaries on the day of distribution.

A random selection of 12 heifers and one bull in four villages belonging to the municipalities of Gllogovc and Decan, respectively, was done. The results of the test are shown in table 1 that follows. In one case the missing animal documents and farm records could not be provided.

**Table 1: Report on the cattle visited in the municipalities of Gllgovc and Decan****A Municipality GLLGOVC date of the visit: 1 March 2001****B Municipality of DECAN date of visit: 2 March 2001**

| WB number                 | EU number (1)  | Breed | Sex | Date of user agreement (2)   | Name of farmer      | Date of vet. visits (3)                     | Date NGO's last visit (4) | Comments   |
|---------------------------|--|-------|-----|--|---------------------|---|---------------------------|--|
| Fushtica<br>1541          | A<br>AT<br>91957583<br>4   | S     | F   | 31/10/00   | Miftar<br>Bahtijari | 04/11/00<br>checked<br>with vet.<br>records | 09/01/01                  | Feeding data partly recorded   |
| 1648                      | AT<br>04809473<br>4  | BS    | F   | 31/10/00   | Ibrahim Nura        | 04/11/00<br>checked with<br>vet records     | 09/01/01                  | One calf born 01/03/01<br>Feeding data partly recorded   |
| Nekoci<br>2273            | A<br>AT<br>63087813<br>4   | S     | M   | 21/11/00   | Milan<br>Kastrati   | 12/12/00<br>checked with<br>vet.<br>records | 09/01/01                  | No feeding records<br>No specific<br>document for<br>health monitoring                                   |
| 1526                      | AT<br>66304541<br>1 (letters<br>written<br>only on<br>ear tag.,<br>and not on<br>pedigree) | S     | F   | Not checked  | Bairush<br>Kastrati | 04/11/00<br>checked<br>with vet.<br>records | 09/01/01                  | One calf born 18/02/01<br>No feeding records<br>Secondary Beneficiary<br>for mechanisation<br>component  |
| 1534                      | 66550441<br>1  | S     | F   | 31/10/00   | Fehmi<br>Kastrati   | 04/11/00<br>checked<br>with vet.<br>records | 09/01/01                  | Feeding data partly recorded   |
| Prejlepi<br>1355          | B<br>DE<br>09319737<br>96  | S     | F   | 24/10/00   | Hamed<br>Hulad      | 07/01/00<br>26/01/01                        |                           | No feeding records   |
| 1379                      | DE<br>09320053<br>12   | S     | F   | 24/10/00   | Xhemsad<br>Shehaj   | 26/10/00<br>28/01/01                        | 09/02/01                  | No feeding records<br>Second Beneficiary for<br>mechanisation<br>component                               |
| 1363                      | DE<br>09306998<br>42   | S     | F   | 24/10/00   | Isuf Qufaj          | 29/10/00<br>30/01/01<br>17/02/01            |                           | No feeding records<br>Twin calves<br>born 17/02/01   |
| 1396                      | DE<br>09319855<br>50   | S     | F   | 24/10/00   | Halim Tulaj         | 26/10/00<br>26/01/01                        | 09/02/01                  | No feeding records<br>No rope<br>Poor conditions   |
| Dranoc<br>936             | B<br>AT<br>72370621<br>1   | BS    | F   | 21/10/00   | Lan I<br>Nitaj      | 23/10/00<br>28/11/00                        | 16/01/01                  | No feeding records<br>One calf born 04/11/00   |
| 1068                      |  |       |     | <u>documents<br/>were not<br/>available on<br/>the farm<br/>during the<br/>visit</u> | Ali Nitaj           |   |                           | The remaining cattle<br>concentrate feed bags<br>were spoiled because of<br>bad conditions of<br>storage |
| checked<br>on ear<br>tag. | AT<br>22602181<br>1  | S     | F   | 21/10/00   | Zeqir Nitaj         | 24/10/00<br>23/01/01                        |                           | No feeding records   |
| 1062                      | AT<br>70524543<br>4  | S     | F   | 21/10/00   | Shaban<br>Baqaj     | 24/10/00<br>23/01/01                        |                           | No feeding records   |

(1) (3) As indicated on green card (in farm records), pedigree copy and on ear tags

(2) Date of delivery to the farmer on user agreement

(4) For Gllgovc municipality, date of the FAO's technician last visit



*Test 2: Cattle delivery and distribution*

With respect to the procedure of cattle delivery and distribution, the test consisted of verifying that the delivery and distribution of cattle complied with the procedures as stated by the "cattle delivery procedures" issued on 28 September 2000 by the FAO Livestock and Health Team. My staff investigated the following documents to which the above procedure referred:

- the list of all selected cattle with ear-tag WB and EU ID numbers,
- the list of cattle transported from the supplier to Pristina airport, to be faxed on the eve of each transportation,
- the check list of the cattle upon arrival at Pristina airport,
- the incoming transport notes upon delivery at the holding station in Miridja farm,
- the complete set of documentation for each animal (pedigree, veterinary health certificate, etc),
- the outgoing transport note from the holding station to the distribution points,
- the user agreement signed by the beneficiary upon reception of the animal.

The test was conducted on the same random selection of 12 heifers and 1 bull as test 1. My staff noted that the exhaustive list of all selected cattle with ear-tag WB and EU ID numbers was missing in Pristina. The list of cattle transported from the supplier to Pristina airport, to be faxed on the eve of each transportation was also missing, except for the first delivery flight. As reported by the EFRP TL, *"the list of selected cattle and the assigned WB numbers were brought to the office by each flight coming in with the cattle. The first list was brought to Pristina by a member of the selection team before the first cattle flight. The second, third lists were subsequently brought by the first, second flights etc."* This did not comply with part A of the "cattle delivery procedures" mentioned above, according to which the selection team, under the supervision of the international livestock specialist would make the final selection list with the supplier, circulate the exhaustive selection list to Pristina, and, for each air-flight, the selection team would send by e-mail to the national Livestock Specialist a selection list listing all of the 65-70 head of cattle, which were planned to be transported. The results observed call for the following comments:

- The failure to fully abide by the procedure relating to the transportation of cattle from the supplier's holding station to Pristina airport meant that the cattle delivered might not be the cattle actually singled out by the selection committee since the list of the cattle delivered could not be reconciled for identification purpose with the exhaustive list of the cattle with their EU and WB ear-tag numbers set up by the selection committee.
- My staff was told that a list of the cattle delivered attached to the veterinary health certificate was given upon arrival of the cattle at the airport, but they could not be provided with a checklist.
- For heifers WB 1541 and WB 1648 received at Pristina airport on 24 October, 2000, the date of service was neither mentioned on the pedigree nor on an attached certificate of service, but only on the list of the cattle delivered attached to the veterinary health certificate. This meant that, in this case, controls at the airport were not effective since each animal should be delivered with its own documents.
- The incoming transport note was correctly filled in.
- The outgoing transport note indicated the date of the arrival flight instead of the date of transportation from the holding station to the distribution points. This meant that the duration of the quarantine period in the holding station was not documented.

- For heifers WB 1355 and WB 1363 and other animals transported on 21 October 2000, the list of the cattle delivered was not attached to the veterinary health certificate. In this case, the justification given to my staff (e-mail from the EFRP TL dated 10 March 2001) differed from the explanation given at the time of their mission, according to which this list had been returned with the certificate to the supplier's veterinary surgeon and the supplier's veterinary surgeon was in charge of vaccinating the cattle in the holding station but had forgotten to sign the certificate of vaccination for the above mentioned heifers. My staff confirmed that the files were missing at the time of the mission.

**Table 2 (first part): Delivery of cattle**  
**A Municipality GLLOGOVC**  
**B Municipality DECAN**

| WB Number (1)    | UE Number(2) Breed Sex  | Date Number of flight (3) | Checking of airport | at | Departure from airport to Miridija Farm (2) Date with number of truck | Departure from Miridija Farm(4) Date with number of truck | Comments   |
|------------------|---|---------------------------|---------------------|----|---|---|--|
| Fushtica<br>1541 | A<br>AT<br>919575834<br>S F   | KSV-MKA 353<br>24/10/00   | Not found           |    | FAO 20<br>24/10/00  | Not found   | The veterinary health certificate was not signed in Bratislava |
| 1648             | AT<br>048094734   | KSV-MKA 353<br>24/10/00   | Not found           |    | FAO 9<br>24/10/00   | Not found   | idem   |
| Nekoci<br>2273   | A<br>630878134<br>S M   | KSV-MKA 353<br>04/11/00   | Not found           |    | FAO 9<br>04/10/00   | Not found   | idem   |
| 1526             | AT<br>665545411<br>S F  | KSV-MKA 353<br>24/10/00   | Not found           |    | FAO 11<br>24/10/00  | Not found   | idem   |
| 1534             | AT 665504411<br>S F   | KSV-MKA 353<br>24/10/00   | Not found           |    | FAO 20<br>24/10/00  | Not found   | idem   |
| Prejlepi<br>1355 | B<br>DE<br>0931973796<br>S F<br>No list of cattle attached with the original vet. documents | KSV-MKA 353<br>21/10/00   | Not found           |    | FAO 11<br>21/10/00  | Not found   |  |
| 1379             | DE<br>0932005312<br>S F   | KSV-MKA 353<br>21/10/00   | Not found           |    | FAO 11<br>21/10/00  | Not found   |  |

**Table 2 (second part): Delivery of cattle**  
**A Municipality GLLOGVC**  
**B Municipality DECAN**

| WB Number (1) | UE Number(2) Breed Sex   | Date Number of flight (3)   | Checking at airport | Departure from airport to Miridija Farm (2) Date with number of truck | Departure from Miridija Farm (4) Date with number of truck | Comments |
|---------------|--|-----------------------------|---------------------|---|--|----------|
| 1363          | DE<br>0930699842<br>S F<br>No list of cattle attached with the original vet. documents | KSV- MKA 353<br>21/10/00    | Not found           | FAO 20<br>21/10/00  | Not found  |          |
| 1396          | DE 0931985556<br>SF  | KSV<br>MKA 353<br>21/10/00  | Not found           | FAO 13<br>21/10/00  | Not found  |          |
| Dranoc<br>936 | B<br>AT<br>723706311<br>BS F   | KSV -MKA<br>353<br>17/10/00 | Not found           | FAO 15<br>17/10/00  | Not found  |          |
| 1068          | AT<br>223263511<br>S F   | KSF -MKA 353<br>17/10/00    | Not found           | FAO 21<br>17/10/00  | Not found  |          |
| 1006          | AT<br>226021811<br>S F   | KSF-MKA 353<br>17/10/00     | Not found           | FAO 21<br>17/10/00  | Not found  |          |
| 1062          | AT<br>705245434<br>S F   | KSF-MKA 353<br>17/10/00     | Not found           | FAO 21<br>17/10/00  | Not found  |          |

(1) Reported from the FAO's monitoring list as the WB number was not written on pedigree document

(2) Checked with pedigree and joint set of documents

(3) Checked with incoming transport notes and listing in FAO monitoring file

(4) Checked with outgoing transport notes ( the date written on the outgoing transport note is the date of the arrival flight and not the date of outgoing)

*Test 3: Calving*

Regarding calving, the test completed on 100 heifers (out of 240) supervised by the veterinary station Gllogovc, consisted of comparing the expected date of calving, based on the AI date reported on the pedigree, with the actual date of calving reported on the veterinary records. The results of this test are shown in table 3 below. These results revealed that 12 heifers experienced a date of calving different from the expected date of calving (exceeding 19 days). According to the veterinary surgeons, "early and late" calves looked as if they had undergone a nine-month pregnancy. The high rate of "early and late calving" in comparison to the expected calving date questioned the accuracy of AI data on the pedigrees of the imported cattle.

In connection with the calving, we noticed that for eight beneficiaries of cows located in the municipality of Decan:

- 400 kg of feed concentrate were distributed to the eight beneficiaries;
- three out of eight beneficiaries had fed their cow prior to the calving date, in spite of the recommendations of the municipality technicians;
- two out of eight beneficiaries fed their cow before and after the calving date; most of them emphasised that the quality of the feed concentrate that was delivered was not as good as the Yugoslavian concentrate they had used before the war;
- one out of eight beneficiaries had wasted the feed concentrate delivered because of the poor storage conditions.

**Table 3: Early and late calving in comparison with expected dates of calving**

| WB number | Expected date of calving after the AI date on the pedigree | Actual date of calving | Gap in days (+=late; -=early calving) |
|-----------|--|------------------------|---------------------------------------|
| WB 32     | 12 12 00   | 03 11 00               | - 22                                  |
| WB 29     | 29 11 00   | 26 10 00               | - 34                                  |
| WB 34     | 03 12 00   | 14 11 00               | - 19                                  |
| WB 75     | 01 12 00   | 11 10 00               | - 49                                  |
| WB69      | 25 11 00   | 15 10 00               | - 40                                  |
| WB 317    | 06 03 01   | 22 01 01               | - 23                                  |
| WB 70     | 02 12 00   | 14 10 00               | - 49                                  |
| WB 10     | 16 12 00   | 18 01 01               | +33                                   |
| WB 1114   | 09 12 00   | 30 01 01               | +52                                   |
| WB 22     | 19 10 00   | 20 11 00               | +31                                   |
| WB 350    | 12 01 01   | 24 02 01               | +43                                   |
| WB 48     | 14 11 00   | 10 12 00               | +26                                   |

On a sample of 100 heifers out of 240 heifers registered on the farm record held by veterinary station Gllogovc 2

- seven heifers experienced an early calving
- five heifers experienced a late calving
- as a whole, 12 heifers experienced a date of calving different from the expected date of calving with a gap of over 19 days.

*Reporting and monitoring system under component 1**Test 4: Farm records to be filled in by the farmers*

Based on a random selection of 12 cows and one bull in four villages belonging to the municipalities of Glogovc and Decan, respectively, my staff checked the farm records to be filled by the farmers. The results and their comments were as follows:

- the nutrition record sheet was not filled in by the farmers except for three cases where it was only partially filled in.
- the daily milk production record was never filled in but did not need to be since the calves were still being bred by the cow.
- the calf record was not completed in three cases where calving had taken place.
- the heifer farm record, though a positive element in the livestock component reporting system, seems too demanding a follow-up system to be implemented on a daily basis by the farmers.

*Test 5: Implementing agencies keeping record for monitoring*

With respect to the implementing agencies keeping records for monitoring, my staff performed two tests, the first one in the municipality of Decan, and the second one in the municipality of Glogovc. During my staff's visit to the premises of MCI in Peje where they were accompanied by the two municipality technicians employed by the NGO, they checked the monthly reports and the quarterly report for the period 16 October 2000 to 31 January 2001 issued by MCI for the municipality of Decan. They looked into the internal computerised files of MCI that followed up the visits made by the municipality technician. According to these files, visits had been completed in every village of the area except for the village of Junik where 154 heifers had been distributed and 98 farmers visited. The file related to the visits made to the bull owners stated that 13 visits took place on 27 January 2001. This figure was surprising since the 14 bulls distributed in the municipality were located in 12 different villages.

For the municipality of Glogovc, my staff investigated the training sessions records held in the EFRP premises in Pristina. The training staff signed these records but not the attending farmers. In the village of Fushtice Ulet, 15 out of 18 beneficiaries attended the first training session on 6 September 2000. Ten beneficiaries attended the third training session. In the village of Nekovc, 21 out of 22 beneficiaries attended the first training session. Only 12 attended the second training session. Training sessions covered subjects like record keeping, feeding of the cattle, calf rearing, and common disease problems. Time devoted to each subject was short (30 minutes for feeding the cattle). The monitoring activity, even if well designed, remained basically an administrative follow-up. Advice given to beneficiaries remained insufficient. This was reflected in the reported death of two cows caused by over feeding with feed concentrate. Since farmers poorly attended training sessions, my staff recommended that municipality livestock technicians be given the task of providing more advice and that training sessions be made more attractive to farmers.

*Provision of veterinary service to imported cattle under component 1*

*Test 6: Veterinary visits*

On the basis of tests conducted on the cattle under the supervision of veterinary station 2 in Gllgovc, my staff checked that the veterinary visits registered on the farm record held by the farmer were accurately reported on the record held by the veterinary. It appeared that the veterinary services were provided in accordance with the veterinary agreements contracted by the FAO. However, for the bull located in Gllgovc, no veterinary visit had taken place, allegedly for the reason that no service for natural insemination had been provided. The bull was located in the same stable as two Busha heifers. Furthermore, the test showed that health controls on bulls relating to the risk of venereal disease transmission were unlikely to offer adequate reliability given the fact that no diagnosis laboratory had been built yet. The diagnosis laboratory was essential to the implementation of the veterinary's obligations in respect of bulls since the contracts with the veterinary practice stated that a prepuce swab must be taken every three months for laboratory tests. Therefore, no systematic examination of bulls after the first service could be provided for.

*Test 7: Supporting documents for the payment of veterinary visits*

In order to check the supporting documents for the payment of the veterinary visits, my staff reviewed the nine contracts with veterinary surgeons that had been signed for the three municipalities where the cattle had been distributed to Albanian speaking Kosovars. They also reviewed the monthly reports issued by the veterinary surgeons between October 2000 and January 2001, and the summaries of the NGOs reports issued by the national Monitoring Specialist between November 2000 and January 2001. The results, which are shown in detail in table 4 that follows, were the following:

- The number of visits that were certified for payment purposes was exactly the number requested in the contracts. However, these numbers of visits were not consistent with the supporting documents on which the certification should have been based. Visits reported by the supporting documents differed from the certified number and were not consistent with each other. The number of visits reported in the monthly veterinary surgeons reports was higher than the number of visits stated by the EFRP summary of NGOs reports. This discrepancy might result from differences in the periods covered by both reports.
- For the veterinary station Decan 1, the page stipulating the financial conditions was missing from the contract with the veterinary surgeon (i.e. the number of bulls and heifers to be looked after). Therefore, DM 7,512 was paid without referring to the obligations of the veterinary surgeon in terms of free visits.
- In the veterinary station Decan 3, a second veterinary surgeon had to be contracted since the first one was not able to complete the contracted free visits. Two new contracts were established to share payments from the FAO in accordance with the cattle to be supervised by each of them.
- Lack of reliability on the visits reporting should be addressed since it might impact on the health of the cattle, should the visits not have actually taken place.

**Table 4: Provision of veterinary services to imported cattle under component 1**

| Veterinary practice | Name of the veterinary surgeon | Amount of the first payment DM | Number of free visits certificated by FAO staff (when all first visits were carried out) | Number of heifers and bulls the veterinary surgeon is responsible for according to his contract with FAO | Number of free visits in NGO's quarterly report (from 01/11/00 to 31/01 01) as stated by the EFRP summary | Number of free visits in veterinary surgeon monthly reports (from October 2000 to end of January 2001) |
|---------------------|--------------------------------|--------------------------------|--|--|---|--|
| Decan 1             | Querim Pepshi                  | 7512                           | 313  | Not indicated in the contract  | 225   | 622  |
| Decan 2             | Bequir Hulaj                   | 4992                           | 208  | 208  | 185   | 510  |
| Decan 3             | Blerim Hajdari                 | 1500                           | 196  | 194  | 194   | 196  |
|                     | Turhan Nila                    | 3156                           |  |  |   |  |
| Glllogovc 1         | Sefedin Heta                   | 5856                           | 244  | 244  | 191   | 168  |
| Glllogovc 2         | Fadil Heta                     | 5976                           | 249  | 249  | 176   | 195  |
| Glllogovc 3         | Korab Gunga                    | 5784                           | 241  | 241  | 194   | 333  |
| Skenderaj 1         | Rrustem Kadriu                 | 6312                           | 263  | 263  | 126   | 154  |
| Skenderaj 2         | Hajrullah Mecinej              | 6072                           | 253  | 253  | 124   | 391  |
| Skenderaj 3         | Istref Gashi                   | 6528                           | 272  | 272  | 299   | 668  |

*Test 8: Follow-up of abortions and dead cattle*

By reviewing all the veterinary reports relating to deaths and abortions that had to be produced by the contracted veterinary surgeon and that were filed in the EFRP premises, my staff checked the procedure for dead cattle and abortions. The total abortions amounted to 50 as at 17 February 2001 and the statistics of dead cattle is shown in table 5 below:

**Table 5: Dead cattle as at 17 February 2001**

|          | Holding station | In the beneficiary's farm | Total |
|----------|-----------------|---------------------------|-------|
| Heifers  | 4               | 28                        | 32    |
| Bulls    | 0               | 2                         | 2     |
| Total    | 4               | 30                        | 34    |
| Replaced | 4               | 6                         | 10    |

Such results call for the following comments:

- The insurance policy alleged that dead cattle would be replaced if death had taken place within a 30-day quarantine period after delivery in Kosovo (5 days in the holding station in Miridja Farm and 25 days in the beneficiary's stable).
- Ten out of 34 dead cattle had been replaced.
- The test enabled to check that all veterinary certificates were actually related to dead cattle and abortions. It did not provide assurance that all dead cattle and all abortions had been reported to the EFRP PMT.

*Test 9: Monthly veterinary reports to FAO*

In the veterinary station Glllogovc 2 and Prejlep 1, my staff checked the monthly reports issued by the veterinarians to the FAO. The test consisted of comparing the monthly reports to be submitted by the veterinary surgeons held in the EFRP premises with the bound copies of the farm records that had to be held by veterinary surgeons and the registry of animal treatments to be held by veterinary surgeons. It appeared that the registry of animal treatments gave rise to a misunderstanding by a veterinary surgeon in Prejlep who did not report on visits for local cattle (which was part of component 2). Moreover, the veterinary surgeon from station Glllogovc 2 complained that he could not record drugs that he had prescribed in the registry of animal treatment, because of lack of space on the form. But prescribed drugs were written down on the copy of the farm record instead. In view of the above, my staff recommended that more attention should be paid to the completion of the registry of animal treatments since the latter concerned the health condition of the cattle, the evaluation of the quality of the veterinary service and the knowledge of epidemiological risks. My staff was subsequently informed that some actions had already been taken with the National Monitoring

and Evaluation Specialist together with the National Livestock/Veterinary Specialists checking protocol books.

## COMPONENTS 1 AND 2: PROVISION OF DRUGS

### Veterinary drugs prescription

#### Test 10

My staff performed a test, which consisted of recording heifers for which the veterinary had written on the farm record drugs that he had prescribed:

- either prior to the delivery of drugs by FAO,
- or which were not included in the drugs provided by the FAO.

On the farm record held by the veterinary station Glogovc 2, 100 heifers were selected out of 240 heifers under the supervision of the veterinary station Glogovc 2. The results, which are shown in details in table 6 that follows, were the following:

- For 25% of the heifers, drugs had been prescribed, which could be interpreted as a piece of evidence for the effectiveness of the veterinary visits.
- For 14% of the heifers, prescribed drugs were not supplied by the FAO since they were prescribed before 6 December 2000. This highlighted that the late delivery of the drugs supplied by the FAO could have deteriorated the health of the cattle since there was a real need for veterinary drugs in the field.

**Table 6: Drugs prescribed by the veterinary station Glogovc 2 for heifers**

| Case number | WB number | Date of prescription |
|-------------|-----------|----------------------|
| 1           | 11        | 22 11 00             |
| 2           | 12        | 14 12 00             |
| 3           | 13        | 15 11 00             |
| 4           | 15        | 11 10 00             |
| 5           | 24        | 06 11 00             |
| 6           | 29        | 26 10 00             |
| 7           | 35        | 03 02 01             |
| 8           | 75        | 11 10 00             |
| 9           | 329       | 09 10 00             |
| 10          | 332       | 28 11 00             |
| 11          | 337       | 10 01 01             |
| 12          | 2233      | 13 12 00             |
| 13          | 41        | 09 11 00             |
| 14          | 45        | 06 01 01             |
| 15          | 52        | 10 12 00             |
| 16          | 55        | 29 12 00             |
| 17          | 59        | 21 12 00             |
| 18          | 65        | 20 11 00             |
| 19          | 69        | 11 10 00             |
| 20          | 74        | 13 02 01             |
| 21          | 340       | 08 01 01             |
| 22          | 1928      | 23 12 00             |
| 23          | 2294      | 15 02 01             |
| 24          | 358       | 16 12 00             |
| 25          | 359       | 21 01 01             |

Source: farm record held by the veterinary station Glogovc 2

Sample: 100 heifers out of 240 under the supervision of the veterinary station Glogovc 2.



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**COMPONENT 3: FARMER MACHINERY REPAIR AND REPLACEMENT****Distribution of new tractors**

The first test consisted of a spot check of the WB ID number and the serial number of the tractor and the implements and the name of the beneficiary. They were found to be consistent with the list held on the EFRP premises. The tractors were operated to check whether they worked effectively.

The second test included two primary beneficiaries of tractors. The test consisted of checking the usage of the tractor for the secondary beneficiaries by comparing the list of works for the secondary beneficiaries held by the primary beneficiary and the vouchers signed by the secondary beneficiary that were supporting documents for the list of works for the secondary beneficiaries held by the municipality mechanisation technician. The test proved that registered data were in accordance with the vouchers. My staff's intention was also to do a spot check on the reported works for secondary beneficiaries to make sure that they had actually been done, but the snowy weather conditions prevented them to carry out these checks. The following was noted regarding the sample, three secondary beneficiaries had still not used the tractor of the primary beneficiary for cultivation works, two secondary beneficiaries met in the municipality of Decan had not used the tractor of the primary beneficiary and rented another tractor instead for the cultivation work. This situation allegedly owed much to the fact that the tractors were delivered too late in the season for the cultivation work.

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