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الغذية والزراعة
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COUNCIL

Hundred and Sixtieth Session

Rome, 3-7 December 2018

Report of the 173rd Session of the Finance Committee (12-16 November 2018)

Executive Summary

At its second regular session in 2018 the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 173rd Session, the Committee:

- **Makes specific recommendations** to the Council: (i) urging Members to make timely and full payment of assessed contributions (para 10); and (ii) on the Audited Accounts for 2017 (para 13);
- **Informs** Council of its decision: approving the FAO Commissary 2017 Accounts (para 15);
- **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources and oversight matters; and
- **Highlights** to Council initiatives to improve its own work.

Suggested action by Council

The Council is requested to:

- a) **Endorse** the recommendations of the Committee on timely payment of assessed contributions and on the Audited Accounts for 2017;
- b) **Take note** of the decision of the Committee on the FAO Commissary 2017 Accounts; and
- c) **Endorse** the Committee's guidance provided to the Secretariat on all other matters within its mandate, as well as initiatives to improve its own methods of work.

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Introduction

1. The Committee submitted to the Council the following report of its Hundred and Seventy-third Session.
2. In addition to the Chairperson, Mr Lupiño Lazaro Jr. (Philippines), the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Ms Cathrine Stephenson (Australia)
 - Mr Manash Mitra (Bangladesh)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Ni Hongxing (China)
 - Mr Haitham Abdelhady Elsayed Elshahat (Egypt)
 - Mr Mateo Nsogo Nguere Micue (Equatorial Guinea)
 - Mr Heiner Thofern (Germany)
 - Mr Benito Santiago Jiménez Sauma (Mexico)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Mr Sid Ahmed M. Alamain Hamid Alamain (Sudan)
 - Mr Thomas M. Duffy (United States of America)
3. The Chairperson informed the Committee that:
 - Ms Maria Esperança Pires Dos Santos (Angola) had been designated to replace Mr Carlos Alberto Amaral for part of the session;
 - Mr Niu Dun (China) had been designated to replace Mr Ni Hongxing as the representative of China for part of this session; and
 - Mr Ahmed Mohamed Abdella Ahmed Abdou (Egypt) had been designated to replace Mr Haitham Abdelhady Elsayed Elshahat for part of this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. In addition, silent observers from the following Members attended the 173rd Session of the Committee:
 - Belgium
 - Bulgaria
 - Costa Rica
 - Cuba
 - Cyprus
 - Dominican Republic
 - European Union
 - Finland
 - France
 - Greece
 - Hungary
 - Indonesia
 - Italy
 - Japan
 - Morocco
 - Norway

- Panama
- Philippines
- San Marino
- Spain
- Sweden
- Thailand
- Ukraine
- United Kingdom
- Venezuela (Bolivarian Republic of)

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 173/2, the Financial Position of the Organization as at 30 June 2018, including the liquidity of the Organization, the status of outstanding assessed contributions, the status of short and long term investments, staff related liabilities, Technical Cooperation Programme (TCP) expenditure and outstanding balances, the General Fund deficit and voluntary contributions.

7. The Committee noted that further information and analysis of the liquidity position was presented in document FC 173/3, Liquidity Status of the Organization and would be considered under item 3 of the agenda of the Committee.

8. **The Committee:**

- a) **noted that the level of the General Fund deficit was forecasted to reach a level of USD 870.0 million by 31 December 2018 as compared with USD 899.3 million as at 31 December 2017, and that the main reason for this structural deficit continued to be due to shortfalls in funding to offset charges for Staff Related Liabilities;**
- b) **noted the information provided on investment performance recalling that this matter would be considered in more detail at its next regular session when the Report on Investments for 2017 would be presented to the Committee;**
- c) **welcomed the continued improvement in the rate of expenditure of the Technical Cooperation programme (TCP) and encouraged the Secretariat to maintain this trend; and**
- d) **recalled that the underfunding of After Service Medical Coverage (ASMC) liabilities had been discussed by the Committee during its previous sessions when it had emphasized the importance of adopting a common approach amongst the members of the United Nations Common System on this matter and encouraged the Secretariat's participation in the UN Common System's search for a solution to this issue.**

Liquidity Status of the Organization

9. The Committee reviewed document FC 173/3, that provided an update on the Liquidity Status of the Organization as of 30 September 2018.

10. **The Committee:**

- a) **noted that delays in the payment of current assessed contributions and the continued high level of assessments that remain unpaid from prior years contributed to the pressure on the Organization's liquidity position during 2018;**
- b) **welcomed the additional information provided on assessed contributions received since the preparation of the document and confirmation that the Organization's liquidity was expected to be sufficient to cover operational needs through the end of 2018; and**

- c) **urged all Member Nations to make timely and full payment of assessed contributions to ensure that the Organization was able to meet the operating cash requirements for the Programme of Work.**

Audited Accounts - FAO 2017

11. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for 2017, including a presentation by the External Auditor of his Long Form Report on the audit of the financial operations of FAO, highlighting the principal recommendations and observations presented in the Report.

12. **The Committee:**

- a) **expressed appreciation to the Secretariat for the presentation of the FAO Audited Accounts 2017, and welcomed its close collaboration with the External Auditor;**
 b) **expressed satisfaction that the External Auditor had issued an unmodified audit opinion;**
 c) **commended the External Auditor for the quality of the Long Form Report and the recommendations contained therein;**
 d) **welcomed the issuance for the first time of a Statement of Internal Control (SIC) attached to the FAO Audited Accounts for 2017 which provides additional assurance on the effectiveness of the system of internal control;**
 e) **endorsed the recommendations of the External Auditor to enhance the SIC production process and encouraged the Secretariat to take action to address these recommendations and lessons learned during the first year of implementing formal internal control reporting; and**
 f) **noted that the detailed management responses to the External Auditor's recommendations on the 2017 Accounts were included in the Progress Report on the Implementation of the External Auditors recommendations and were considered under a separate agenda item.**

13. The Committee, noting the comments and clarifications provided by the External Auditor and the Secretariat, recommended that the Council submit to the Conference for adoption, the Audited Accounts for 2017. The Committee accordingly agreed to submit to the Council the following Draft Conference Resolution:

DRAFT CONFERENCE RESOLUTION

FAO Audited Accounts 2017

THE CONFERENCE,

Having considered the report of the 160th Session of the Council, and

Having examined the 2017 FAO Audited Accounts and the External Auditor's Report thereon

Adopts the Audited Accounts

Audited Accounts - FAO Commissary 2017

14. The Committee reviewed document FC 173/5, Audited Accounts – FAO Commissary 2017 and the financial performance of the Commissary for the period.

15. **The Committee:**

- a) **welcomed the issuance of the External Auditor's unqualified opinion;**

- b) **approved the 2017 Audited Accounts of the FAO Commissary;**
- c) **noted that the Commissary 's net working capital closed at EUR 2.8 million; and**
- d) **further noted the information provided by the Secretariat on the ongoing review of a future business model for the Commissary and looked forward to further updates at its next session.**

Budgetary Matters

Annual Report on Support Costs Expenditure and Recoveries

16. The Committee reviewed document FC 173/6, Annual Report on Support Costs Expenditure and Recoveries.
17. **The Committee:**
- a) **took note of the application of the legacy policy for setting project servicing cost rates, as well as on the new Cost Recovery Policy for the period June 2017 - May 2018;**
 - b) **recalled that the report presented covered the final period in which projects would be approved under the legacy policy;**
 - c) **welcomed the implementation of the new cost recovery policy since 1st January 2018; and**
 - d) **noted that future reporting on this matter would be integrated into the reporting on budgetary performance.**

Results Framework 2018-19 – Functional Objectives

18. The Committee reviewed document FC 173/7, Results Framework 2018-19 – Functional Objectives.
19. **The Committee:**
- a) **noted the updates made to the 2018-21 results framework for the four Functional Objectives (FOs) and three Special Chapters reflecting previous guidance provided by the Finance Committee and the Council; and**
 - b) **requested the deletion of Key Performance Indicator 11.1.D on the vacancy rate of professional positions.**

Human Resources

Human Resources Management

20. The Committee examined document FC 173/8, on Human Resources Management.
21. **The Committee:**
- a) **noted the information provided in the areas of recruitment and career development; alignment of HR management to the strategic and programmatic needs of the Organization; as well as the nature of FAO as a United Nations specialized agency; and of increased efficiency in HR processes and procedures;**
 - b) **welcomed the additional information and statistical data provided in response to earlier requests of the Finance Committee and the Council;**
 - c) **encouraged the Secretariat to continue improving the information presented in future reports;**
 - d) **encouraged the Secretariat to pursue its efforts to address some challenges identified in the document, in particular through: (i) efficient implementation of the new**

recruitment platform; (ii) continued outreach activities to support the Organization's strengthening of its programme delivery and technical capacity; and (iii) improvement of workforce planning effectiveness;

e) **noted** that while the Regular Programme budget had remained generally flat over the reporting period covered by the HR data, the total budget had in fact increased reflecting the confidence of donors in FAO leadership and programme delivery; and

f) **looked forward** to receiving, at a future session, information on the recommendations arising from the review recently completed by the Inspector General on "Recruitment and Onboarding of Professional Staff" as input towards further HR management improvements in the Organization.

Geographic Balance of Consultants

22. The Committee reviewed document FC 173/9, Geographic Balance of Consultants.

23. **The Committee:**

a) **noted** the measures put in place in response to Council guidance on geographical balance in the recruitment of consultants funded by the Regular Programme budget;

b) **welcomed** the improved geographical diversity of organizational rosters of consultants and, in particular, the greater possibilities offered to Decentralized Offices to access expertise locally available, or with knowledge of the region and/or countries;

c) **requested** that future progress reports fully conform with requests made and guidance given by the Council, especially in providing detailed information on: (i) the criteria followed in the hiring of consultants; (ii) the breakdown of consultants rosters by region, category, competency, and linguistic diversity; (iii) the flexible approach in the selection process; and (iv) the cost impact of the measures; and

d) **encouraged** the Secretariat to continue to improve the geographical balance of consultants funded by the Regular Programme budget while, at the same time, maintaining merit as the primordial criterion for recruitment.

Action Plan for the Achievement of Equitable Geographic Distribution, and Gender Parity of FAO Staff

24. The Committee examined document FC 173/10, the Action Plan for the achievement of equitable geographic distribution, and gender parity of FAO staff.

25. **The Committee:**

a) **recalled** that the document was provided in response to the request of the 159th Session of the Council to present a detailed action plan towards improving equitable geographic distribution and gender parity to its next session;

b) **underlined** that ensuring highest standards of efficiency, competency and integrity is a criterion of paramount importance in recruitment decisions while at the same time, due attention must be given to ensuring equitable geographic distribution and gender parity of the Organization workforce;

c) **acknowledged** that since 2017, FAO had outperformed the key performance indicator 11.1.B (percentage of member countries that are equitably represented);

d) **welcomed** the significant reduction in the number of non-, under- and over-represented countries and the increased number of equitably represented countries, and encouraged the Secretariat to pursue its outreach efforts towards the remaining non- and under- represented countries;

- e) **welcomed** the improvements in gender parity in the Organization workforce and encouraged further efforts in this regard, in particular as regards senior level and managerial positions; and
- f) **requested** the Secretariat to ensure that all measures in the action plan had an assigned time frame and looked forward to receiving updates on progress at future meetings.

Statement of the FAO Staff Bodies

- 26. The Committee examined document FC 173/11, Statement of the Staff Bodies.
- 27. **The Committee:**
 - a) **considered** the request by the 159th Session of the Council to discuss the Statement by a Representative of the FAO Staff Bodies and management views contained in document FC 173/11;
 - b) **recalled** that the mandate of the Committee as set out in the General Rules did not contemplate any involvement in internal staff management relations and that the responsibility for staff management rests with the Director-General; and
 - c) **recommended** that the statement of the Staff Bodies continue to be handled in accordance with the established staff regulations.

Recommendations and Decisions of the International Civil Service Commission and UN Joint Staff Pension Board to the General Assembly (including Changes in Salary Scales and Allowances)

- 28. The Committee examined document FC 173/12, *Recommendations and Decisions of the International Civil Service Commission and UN Joint Staff Pension Board to the General Assembly (including Changes in Salary Scales and Allowances)*.
- 29. The Committee noted the recent developments in the activities of the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board (UNJSPB).

Oversight

Progress Report on Implementation of the Audit Committee Recommendations

- 30. The Committee examined document FC 173/13, *Progress Report on Implementation of the Audit Committee Recommendations* that presented the progress made by FAO in implementing recommendations that were outstanding in the Audit Committee's 2017 Annual report (document FC 170/9 Rev.1).
- 31. **The Committee:**
 - a) **reviewed** the status of implementation of recommendations of the FAO Audit Committee;
 - b) **welcomed** the progress made in closing recommendations of the Audit Committee and encouraged the Secretariat to continue efforts to close the remaining outstanding recommendations; and
 - c) **looked forward** to a further update on the progress made when the Audit Committee's 2018 annual report is presented at the Committee's 174th session in March 2019.

Progress Report on Implementation of the External Auditor's Recommendations

32. The Committee reviewed document FC 173/14, *Progress Report on Implementation of the External Auditor's Recommendations*.

33. **The Committee:**

- a) **reviewed the status of implementation of the recommendations of the External Auditor;**
- b) **welcomed the significant progress made in closing recommendations of the External Auditor since the date of the previous progress report presented to the Committee at its 169th Session in November 2017; and**
- c) **urged the Secretariat to continue efforts to close the remaining outstanding recommendations, emphasizing in particular the importance of addressing recommendations related to the efficiency and oversight of corporate travel management.**

Progress on Implementation of the Recommendations of the Joint Inspection Report (JIU) on Fraud Prevention, detection and response in United Nations System Organizations

34. The Committee examined document FC 173/15, *Progress on Implementation of the Recommendations of the Joint Inspection Report (JIU) on Fraud Prevention, Detection and Response in United Nations System Organizations*.

35. **The Committee:**

- a) **noted the progress achieved by the Organization in meeting its commitment to implement the two outstanding JIU recommendations under report JIU/REP/2016/4 Fraud prevention, detection and response in the United Nations System Organization;**
- b) **encouraged the Secretariat to implement actions identified in the Anti-fraud Strategy and its related Action Plan in a timely manner; and**
- c) **looked forward to receiving further information on the implementation of the fraud prevention strategy as part of the 2018 Statement of Internal Control (SIC) process.**

Progress Report on the Appointment of the External Auditor for the period 2020-25

36. The Committee reviewed document FC 173/16, *Progress Report on the Appointment of the External Auditor for the period 2020-25*.

37. **The Committee:**

- a) **noted that the first three stages of the selection process (Invitation for Proposals, Receipt of Proposals and Preparation of Comparative Analysis) had been completed within the agreed time frame; and**
- b) **took note of the planned time frame for completion of the remaining stages of the selection process.**

Review of whistle-blower policies and practices in United Nations Systems Organizations

38. The Committee had before it document FC 173/17, JIU report on the *Review of whistle-blower policies and practices in United Nations Systems Organizations*.

39. **The Committee:**

- a) **noted** that the JIU Report Review of whistle-blower policies and practices in United Nations Systems Organizations was recently issued and that the Chief Executives Board (CEB) was in the process of requesting comments from participating organizations that would form the consolidated comments on the report provided by the CEB and **further noted** that FAO would prepare its individual comments on the report following completion of this process;
- b) **requested** the Secretariat to undertake a review of the independence of the Ethics Office, OIG, and ombudsperson functions as soon as possible;
- c) **recalled** the request made at the 154th Session of the Council for annual reporting of the Ethics Office to the Finance Committee; and
- d) **noted** that the complete document including the consolidated comments of the CEB and FAO comments would be available for the Committee's 174th Session in March 2019 and agreed to consider it and proposed follow-up actions on these recommendations at that time.

Improved Methods of Work and Efficiency of the Finance Committee

Status of Outstanding Recommendations of the Finance Committee

40. The Committee reviewed document FC 173/18, *Status of Outstanding Recommendations of the Finance Committee*.

41. **The Committee:**

- a) **took note** of the status of outstanding recommendations of the Finance Committee; and
- b) **looked forward** to considering an updated version of the document at its 174th Session in March 2019.

Working Methods of the Finance Committee

42. The Committee noted the importance of continually reviewing its methods of work in order to achieve its overarching goals and objectives.

43. **In this regard, the Committee:**

- a) **welcomed** the practice introduced during its current session of distributing and reviewing draft text following the completion of each item on its agenda, for inclusion in the Report of the Committee;
- b) **expressed support** for the practice of holding informal meetings of the Committee prior to its sessions and also of providing informally advance queries to the Secretariat on items to be considered under the agenda in order to facilitate preparations for the formal discussions;
- c) **encouraged** the Secretariat to consider the booking of alternative meeting rooms at its future sessions;
- d) **requested** the Secretariat to review the scheduling on the timetable of the Report of the External Auditor to facilitate its efficient discussion; and
- e) **emphasized** the importance of receiving and ensuring the quality of documents in all official languages and within the established time limits in order for the Committee to have sufficient time to review the documentation prior to the sessions.

Other Matters

Date and Place of the Hundred and Seventy-fourth Session

44. The Committee was informed that the 174th Session was scheduled to be held in Rome from 18 to 22 March 2019.

Documents for information

- Audited Accounts - FAO Credit Union 2017 (doc. FC 173/INF/2)