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Food and Agriculture
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Продовольственная и
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Organización de las
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Alimentación y la Agricultura

منظمة
الأغذية والزراعة
للأمم المتحدة

COUNCIL

Hundred and Fifty-eighth Session

Rome, 4-8 December 2017

Report of the 169th Session of the Finance Committee (6-10 November 2017)

Executive Summary

At its second regular session in 2017, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 169th Session, the Committee:

- **Makes specific recommendations** to the Council: (i) urging Members to make timely and full payment of assessed contributions (para 8); (ii) on the Audited Accounts for 2016 (para 11); (iii) on adjustments to the Programme of Work and Budget 2018-19 (para 17); and (iv) on its endorsement of the Director General's recommendation to appoint a new member of the Audit Committee (para 29).
- **Informs** Council of its decision: (i) approving the FAO Commissary 2016 Accounts (para 13).
- **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources and oversight matters.
- **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, on the Audited Accounts for 2016, on adjustments to the Programme of Work and Budget 2018-19 and on the appointment of a new member of the Audit Committee;
- b) **Take note** of the decision of the Committee on the FAO Commissary 2016 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 Sixty-ninth Session.
2. In addition to the Chairperson, Mr Lupiño Lazaro Jr., the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Mr Ryan Wilson (Australia)
 - Mr Md. Mafizur Rahman (Bangladesh)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Xie Jianmin (China)
 - Mr Khaled M.S.H. Eltaweel (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:
 - Mr Ryan Wilson (Australia) had been designated to replace Ms Cathrine Stephenson for this session; and
 - Mr Haitham Abdelhady (Egypt) had been designated to replace Mr Khaled M.S.H. Eltaweel for part of the 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 169th Session of the Committee:
 - Cuba
 - Cyprus
 - Dominican Republic
 - Estonia
 - European Union
 - Finland
 - France
 - Netherlands
 - Norway
 - San Marino
 - Spain
 - Sweden
 - Thailand
 - United Kingdom

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 169/2, the *Financial Position of the Organization* as at 30 June 2017 and cash flow forecast for 2017, including the liquidity of the Organization, the status of outstanding assessed contributions, 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 was also provided with an updated status of current assessments and arrears of the Organization as at 31 October 2017.

8. **The Committee:**

- a) **welcomed** the information that based on Members' past payment patterns and Regular Programme cash levels, the Organization's liquidity was expected to be sufficient to cover operational needs through the end of 2017;
- b) **noted** that while the liquidity position was stable, and **recognizing** that the Organization's on-going cash flow health was dependent on the timely payment of assessed contributions, **urged** all Member Nations to make timely and full payment of assessed contributions;
- c) **requested** the Secretariat to continue exploring how to encourage timely payment of assessed contributions;
- d) **noted** that the General Fund deficit for 31 December 2017 was forecasted at USD 900.0 million (USD 907.1 million as at 31 December 2016), due principally to shortfalls in funding to offset charges for the After Service Medical Coverage Scheme and the Terminal Payments Fund, and **noted** that this matter would be considered further by the Committee under the separate agenda item on the *Funding of After Service Medical Coverage (ASMC) Liabilities*;
- e) **welcomed** the improvement in the expenditure and approval rate of the Technical Cooperation Programme and emphasized the importance of continuing to maintain the TCP expenditure rate at a level that ensured full implementation of the TCP appropriation as approved by the Conference;
- f) **welcomed** the overall performance reported on the short- and long-term investment portfolios and appreciated the prudent resource management practices and investment policies being applied by the Organization, recalling that this matter would be considered in more detail by the Committee when reviewing the *Report on Investments 2017* at its next regular session.

Audited Accounts - FAO 2016

9. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for 2016, 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.

10. **The Committee:**

- a) **expressed appreciation** to the Secretariat for the presentation of the FAO Audited Accounts 2016;
- b) **noted** with appreciation that the Secretariat and the External Auditor had worked in close collaboration;
- c) **noted** that the External Auditor had completed the audit in accordance with the International Standards of Auditing and had issued an unmodified audit opinion;

- d) **commended** the External Auditor for the quality of the Long Form Report and **endorsed** the recommendations contained therein;
- e) **noted** that the Long Form Report of the External Auditor continued to identify a significant number of observations relating to the weaknesses and gaps in internal control systems and fraud risk issues at headquarters and Decentralized Offices and **highlighted** the observations and recommendations made by the External Auditor on the Organization's capacity to issue a statement of Internal Control;
- f) **noted** the information provided by the Secretariat on its ongoing activities in preparation for the issuance of a Statement of Internal Control, including on its efforts to address the observations and recommendations of the External Auditor in this regard, and **welcomed** the assurance provided by the Secretariat that a Statement of Internal Control would be attached to the FAO Audited Accounts for 2017; and
- g) **noted** that the detailed management responses to the External Auditor's recommendations on the 2016 Accounts were included in the *Progress Report on the Implementation of the External Auditor's recommendations* and would be considered under the separate agenda item on this subject.

11. 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 2016. The Committee accordingly agreed to submit to the Council the draft resolution below for forwarding to the Conference:

DRAFT CONFERENCE RESOLUTION

FAO Audited Accounts 2016

THE CONFERENCE

Having considered the report of the 158th Session of the Council; and

Having examined the 2016 FAO Audited Accounts and the External Auditor's Report thereon;

Adopts the 2016 Audited Accounts.

Audited Accounts - FAO Commissary 2016

12. The Committee reviewed document FC 169/4, *Audited Accounts – FAO Commissary 2016* and the financial performance of the Commissary for the period.

13. **The Committee:**

- a) **noted** the information provided by the Secretariat on the review being undertaken following the closure of the Commissary and that the results of the review would inform the reflection on an eventual new business model for a Commissary in the future;
- b) **looked forward** to information at future sessions of the Committee on the review of the Commissary and funding of the Staff Welfare Fund;
- c) **welcomed** the issuance of the External Auditor's unqualified opinion; and
- d) **approved** the 2016 Audited Accounts of the FAO Commissary.

Funding of After Service Medical Coverage (ASMC) Liabilities

14. The Committee considered document FC 169/5, which presented an update on the latest UN system discussions on managing After Service Medical Coverage (ASMC) liabilities and on efforts being made by the Secretariat to contain the costs of the scheme.

15. **The Committee**

- a) **welcomed** the update provided on the activities of the Working Group of the Finance and Budget Network on After Service Health Insurance (ASHI), including the most recent discussions with the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the General Assembly (GA) regarding ASHI and highlighting the main outcomes from the 71st session of the GA;
- b) **appreciated** the Secretariat's ongoing active participation in the Working Group and **encouraged** it to continue to review options to address the funding gap in the context of the considerations of this matter by the United Nations General Assembly, recalling its previous emphasis on the importance of adopting a common approach amongst the members of the United Nations Common System; and
- c) **appreciated** the Secretariat's actions to contain costs of the current medical insurance plan and **urged** it to continue its efforts in this direction.

Budgetary Matters

Adjustments to the Programme of Work and Budget 2018-19

16. The Committee welcomed the *Adjustments to the Programme of Work and Budget (PWB) 2018-19*, noting that they reflected the guidance and decisions of the 40th Session of the Conference.

17. **The Committee:**

- a) **welcomed** the updated results frameworks for the Functional Objectives (*Web Annex 1 of CL 158/3*) and recommended further updates to:
 - move the Key Performance Indicator (KPI) 10.2.B on completion of action on evaluation management responses from 10.2 *Oversight* to 10.3 *Direction* to more appropriately reflect the responsible party and add a similar KPI for audit;
 - specify in the wording of KPI 10.3.B the time period of long outstanding audit recommendations; and
 - add a new KPI on the vacancy rate for professional posts under outcome 11.1, *Efficient and effective management of human resources*;
- b) **noted** the updated organizational structure (*Web Annex 3 of CL 158/3*) and the revised budgeted post establishment (*Web Annex 4 of CL 158/3*);
- c) **recommended** that Council approve the revised distribution of the net appropriation by budgetary chapter as presented in Table 2 of document CL 158/3;
- d) **noted** that further budgetary transfers could arise as a result of work planning, as well as from the continuing efforts to use the most efficient and effective modalities of implementation during the biennium. In this context, the Committee recalled that within chapter transfers and transfers from one chapter to another required to implement the PWB during the biennium would be handled in accordance with Finance Regulation 4.5;
- e) **noted** the updated estimates of extrabudgetary resources (*Table 3 of CL 158/3*) and **encouraged** Members to provide voluntary contributions to facilitate achievement of the Strategic Objectives and implementation of the integrated Programme of Work.

Programme and Budgetary Transfers in the 2016-17 Biennium

18. The Committee reviewed the report on *Programme and Budgetary Transfers in the 2016-17 Biennium*, which provided an update on the forecasted budgetary performance against the 2016-17 net Appropriation and the use of the 2014-15 unspent balance.

19. **The Committee:**

- a) **took note of the forecasted unspent balance of USD 5 million against the 2016-17 biennial appropriation and that the final level would be known after the closure of the 2016-17 accounts and reported in May 2018;**
- b) **recalled that any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) would be transferred to the forthcoming biennium as per the Financial Regulations;**
- c) **noted the previously-approved transfers to Chapters 2, 3, 4, 5, 6, 8 and 9 arising from implementation of the Programme of Work and that the transfer to Chapter 2 was no longer required;**
- d) **took note of the use of the 2014-15 unspent balance in 2016-17; and**
- e) **looked forward to receiving the final 2016-17 budgetary performance report at its May 2018 session.**

Annual Report on Support Costs Expenditure and Recoveries

20. The Committee reviewed the *Annual Report on Support Costs Expenditures and Recoveries* covering the period from 1 June 2016 to 31 May 2017.

21. **The Committee:**

- a) **noted that the document covered the application of the legacy FAO policy for setting project servicing cost (PSC) rates for the period June 2016 through May 2017 while FAO transitioned to the new Cost Recovery Policy which would recover direct support costs (DSC) and indirect support costs (ISC);**
- b) **noted that all Trust Fund projects opened during the period under review had been charged at rates which fell within the approved legacy policy on support costs; and**
- c) **noted that during 2017, the Secretariat applied the new FAO policy on cost recovery to selected projects under formulation in close collaboration with the resource partners involved; and that the new policy would be fully implemented during the 2018-9 biennium.**

Human Resources

Human Resources Management

22. The Committee examined document FC 169/9, *Human Resources Management*, which outlined the major achievements made on human resources management in the Organization over the reporting period. The Committee was informed of the Director General's decision to not proceed with the implementation of the new mandatory age of separation for staff recruited prior to 1 January 2014 and took note of the view provided by the Legal Counsel that the decision did not present significant legal risk.

23. **The Committee:**

- a) **regretted** the lack of adequate Human Resources data and information to substantiate the analysis of annual progress and achievements mentioned in the report;
- b) **reiterated** its request made at its 166th Session in March 2017 to provide statistical data , in accordance with its mandate, on staff and non-staff human resources in a standardized format and as requested by the Committee at its 164th session and endorsed by the Council at its 155th Session;
- c) **welcomed** the reported improvements in the selection, recruitment and evaluation processes for consultants and subscribers to Personal Services Agreements, while emphasizing the importance of a flexible application of the new guidelines during the transitional period leading to their full implementation, and **encouraged** the Secretariat to ensure that the technical expertise provided by consultants was not weakened by requiring additional languages for all positions and consider potential adjustments to the new guidelines to avoid disruptive effects on programme delivery;
- d) **noted** that the current vacancy rate for professional positions had decreased to 15.2 percent for headquarters and Decentralized Offices and **noted** however that this was still over the agreed target of 15 percent;
- e) **noted** the improvements in geographic representation with a reduction in the number of non-, under- and over-represented countries, thus increasing the number of equitably-represented countries, and **encouraged** the Secretariat to continue its efforts in this direction;
- f) **welcomed** the improvements in representation of female staff as reported since 2007, and **encouraged** the Secretariat to pursue its efforts towards gender parity of the workforce and in particular for female staff in senior positions;
- g) **noted** and **encouraged** the ongoing efforts to increase efficiency in human resources procedures and processes, including through the modernization of the IT recruitment platform.

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)

24. The Committee reviewed document FC 169/10, *Recommendations and Decisions of the International Civil Service Commission and the United Nations Joint Staff Pension Board to the General Assembly (including Changes in the Salary Scales and Allowances)*.

25. **The Committee:**

- a) **took note** of the recent developments in the International Civil Service Commission and in particular decisions taken and recommendations to the UNGA arising from its 85th Session in July 2017; and
- b) **noted** the main decisions taken by the United Nations Joint Staff Pension Board at its 64th Session in July 2017.

Oversight

Progress Report on Implementation of the External Auditor's Recommendations

26. The Committee reviewed document FC 169/11, *Progress Report on Implementation of the External Auditor's Recommendations*.

27. **The Committee:**

- a) **noted the status of implementation of the recommendations of the External Auditor;**
- b) **welcomed the further information provided by the Secretariat on the status of implementation of the recommendations listed in the 2016 Long Form Report and noted that the External Auditor would be in a position to validate management progress and achievements on these recommendations during the audit review scheduled for end 2017; and**
- c) **commended the Secretariat on the progress made in successfully closing a large number of recommendations and urged it to continue ongoing efforts to close the remaining outstanding recommendations.**

FAO Audit Committee Membership

28. The Committee reviewed document FC 169/12, *FAO Audit Committee Membership* in which the Director-General recommended that Mr Gianfranco Cariola be appointed as a new member of the FAO Audit Committee.

29. **The Committee:**

- a) **endorsed the Director-General's recommendation to appoint Mr Gianfranco Cariola as a member of the FAO Audit Committee for an initial period of three years, and that this be renewable thereafter up to a maximum of six years in total; and**
- b) **agreed to submit to the Council its endorsement of the appointment, to be effective from the date of approval by the Council.**

Terms of Reference of the FAO Audit Committee

30. The Committee reviewed proposed amendments to the Terms of Reference of the FAO Audit Committee, including with regards to the reporting line to the Governing Bodies and the process for appointment of members of the FAO Audit Committee.

31. **The Committee:**

- a) **recalled discussion on this matter at previous sessions;**
- b) **requested that, prior to decision by the Finance Committee at its May 2018 session, the Secretariat implement a road map for the review of the proposed amendments, through informal consultations with members of the Finance Committee;**
- c) **requested that the revised draft Terms of Reference of the Audit Committee proposed and discussed at the 169th Session of the Finance Committee be presented as an agenda item for decision at its next regular Session in May 2018;**
- d) **further requested the Secretariat to review the selection process of Audit Committee members and present options at the Committee's next regular session regarding the future selection of members taking into account best practices of other UN Organizations;**
- e) **noted that the matter of conflicts of interest between the functions of the Ombudsman-Ethics Officer would be addressed on the occasion of the review of the *Annual Report of the FAO Audit Committee*, to be presented to the May 2018 session of the Finance Committee; and**
- f) **further noted that the Secretariat would continue to explore with the RBAs the possibility of having a common Ombudsman and a common Ethics Office and report on the matter at the May 2018 session of the Finance Committee.**

Improved Methods of Work and Efficiency of the Finance Committee

Working Methods of the Finance Committee

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

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

- a) **expressed support to the practice of holding informal meetings of the Committee prior to its sessions and providing inputs to the agenda;**
- b) **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;**
- c) **encouraged the Secretariat to promote the linguistic diversity of the Organization through a broader use of all official languages when the Secretariat presents an introduction to the items; and**
- d) **requested that the Secretariat, when drafting papers for consideration by both the Finance Committee and the Joint Session of the Programme and Finance Committees, give explicit guidance on the aspects to be considered by the respective Committees.**

Other Matters

Date and Place of the Hundred and Seventieth Session

34. The Committee was informed that the 170th Session was scheduled to be held in Rome from 21 to 25 May 2018.

Documents for information

- Status of Current Assessments and Arrears (doc. FC 169/INF/2)
- Audited Accounts - FAO Credit Union 2016 (doc. FC 169/INF/3)
- European Commission for the Control of Foot-and-Mouth Disease Budget for 2018-19 (doc. FC 169/INF/4)
- Animal Production and Health Commission for Asia and the Pacific (APHCA) - Statement of Accounts and Budget for 2017 (doc. FC 169/INF/5)
- Budgets of the Desert Locust Commissions for 2018-19 (doc. FC 169/INF/6)