



COUNCIL

Hundred and Sixty-third Session

Rome, 2-6 December 2019

Report of the 178th Session of the Finance Committee (4-8 November 2019)

Executive Summary

At its second regular session in 2019, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 178th Session, the Committee:

- 1) **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 2018 (para 11); and (iii) on adjustments to the Programme of Work and Budget 2020-21 (para 13).
- 2) **Informs** Council of its decision approving the introduction of a term limit for the Inspector General's appointment (para 28).
- 3) **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources, oversight and other matters.
- 4) **Highlights** to Council initiatives to improve its own work.

Suggested action by Council

- 1) The Council is requested to:
 - a) **endorse** the recommendations of the Committee on timely payment of assessed contributions, on the Audited Accounts for 2018, and on adjustments to the Programme of Work and Budget 2020-21;
 - b) **take note** of the decision of the Committee on the introduction of a term limit for the Inspector General's appointment; 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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Table of Contents

| | Pages |
|---|-------|
| Introduction | 4 |
| Monitoring Financial Position..... | 4 |
| Financial Position of the Organization..... | 4 |
| Audited Accounts - FAO 2018 and Management Response to the Recommendations presented in the Report of the External Auditor..... | 5 |
| Budgetary Matters | 6 |
| Adjustments to the Programme of Work and Budget 2020-21 | 6 |
| Programme and Budgetary Transfers in the 2018-19 Biennium..... | 7 |
| Human Resources..... | 7 |
| Human Resources Management..... | 7 |
| 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) | 8 |
| Oversight | 9 |
| Progress Report on Implementation of the Audit Committee's Recommendations..... | 9 |
| Progress Report on Implementation of the External Auditor's Recommendations..... | 9 |
| Review of Whistle-blower Policies and Practices in United Nations System Organizations (JIU/REP/2018/4) | 9 |
| Amendments to the Financial Regulations of the Indian Ocean Tuna Commission (IOTC)..... | 10 |
| Office of the Inspector General..... | 10 |
| Improved Methods of Work and Efficiency of the Finance Committee..... | 11 |
| Status of Outstanding Recommendations of the Finance Committee..... | 11 |
| Working Methods of the Finance Committee | 11 |
| Other Matters..... | 11 |
| Date and Place of the Hundred and Seventy-ninth Session | 11 |
| Documents for information | 12 |

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Seventy-eighth Session.
2. In addition to the Chairperson, Ms Imelda Smolcic Nijers (Uruguay), the following representatives of Members were present:
 - Ms Lynda Hayden (Australia)
 - Mr Manash Mitra (Bangladesh)
 - Mr Rodrigo Estrela de Carvalho (Brazil)
 - Mr Haitham Abdelhady Elsayed Elshahat (Egypt)
 - H.E. Zenebu Tadesse Woldetsadik (Ethiopia)
 - Mr Heiner Thofern (Germany)
 - Mr Toru Hisazome (Japan)
 - Mr Benito Santiago Jiménez Sauma (Mexico)
 - Ms Tahirou Rahila Rabiou (Niger)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Mr Sid Ahmed M. Alamain Hamid Alamain (Sudan)
 - Ms Emily Katkar (United States of America)
3. The Chairperson informed the Committee that Mr Addisu Melkamu Kebede (Ethiopia) had been designated to replace H.E. Zenebu Tadesse Woldetsadik for part of this session.
4. A summary of the qualification of 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 178th Session of the Committee:
 - Belgium
 - China
 - Cyprus
 - Dominican Republic
 - European Union
 - Finland
 - France
 - Hungary
 - Italy
 - Philippines
 - San Marino
 - Slovakia
 - Spain
 - Switzerland
 - United Kingdom
 - Venezuela (Bolivarian Republic of)

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 178/2, the *Financial Position of the Organization* as at 30 June 2019 and cash flow forecast for 2019, 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 29 October 2019.

8. **The Committee:**

- a) **noted** that based on the latest Regular Programme cash levels and projected payment patterns of Member Nations, the Organization's liquidity was expected to be sufficient to cover operational needs through 31 December 2019;
- b) recognizing that the Organization's ongoing cash flow health and full implementation of the Programme of Work and Budget was dependent on the timely payment of assessed contributions, **urged** Member Nations to make payments of assessed contributions on time and in full;
- c) **noted** that the overall level of the General Fund deficit was forecasted to reach a level of USD 868.9 million by 31 December 2019 as compared with USD 853.5 million as at 31 December 2018, and that the main reason for this structural deficit continued to be due to shortfalls in funding for Staff Related Liabilities;
- d) **emphasized** the importance of adopting a common approach amongst the members of the United Nations Common System on the funding of After Service Medical Coverage (ASMC) liabilities and **encouraged** the Secretariat's continued participation in the UN Common System's search for a solution to this issue;
- e) **noted** the additional information provided on TCP approval and expenditure rates for biennia 2016-17 and 2018-19, and welcomed the confirmation provided that the present levels would ensure full implementation of the TCP appropriation for 2016-17 by 31 December 2019 as approved by the Conference;
- f) **requested** that information on TCP approval and expenditure levels for each biennial appropriation be illustrated in a comprehensive way as part of future regular reports on the Financial Position; and
- g) **noted with concern** that the overall performance of the long-term funds for the first six months of 2019 had underperformed against the benchmark return and **recalled** that investment performance would be considered in more detail at its session in May 2020 when the Report on Investments for 2019 would be presented to the Committee.

**Audited Accounts - FAO 2018 and Management Response to the Recommendations
presented in the Report of the External Auditor**

9. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for 2018, including a presentation by the External Auditor of the 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 Management for the presentation of the FAO Audited Accounts for 2018, prepared in accordance with the International Public Sector Accounting Standards (IPSAS);
- b) **commended** the External Auditor for the quality of the Long Form Report and endorsed the recommendations contained therein;
- c) **noted with appreciation** that Management and the External Auditor had worked in close collaboration;
- d) **expressed appreciation** for the quality of the Statement of Internal Control as also confirmed by the observations of the External Auditor on this matter;
- e) **highlighted** the importance of recommendations on Human Resources matters presented in the Long Form Report and requested the Management to prepare a detailed action plan with concrete timelines and results to be achieved to address these recommendations, to be presented to the May 2020 session of the Finance Committee;

- f) **noted with concern** the resource constraints faced by the Office of the Inspector General to deal with its increasing workload and requested the Management to review potential options to address this within existing resources and report managements plans and options to address the insufficient funding to the May 2020 session of the Finance Committee; and
- g) **welcomed** the practice established at this session of presenting, for consideration under one agenda item, the Audited Accounts, the Report of the External Auditor and the Management's response to the External Auditor's recommendations and **encouraged** this to be continued at future sessions.

11. The Committee, noting the comments and clarifications provided by the External Auditor and the Management, **recommended** that the Council submit to the Conference for adoption, the Audited Accounts for 2018. The Committee accordingly **agreed** to submit to the Council the draft resolution below for forwarding to the Conference:

DRAFT CONFERENCE RESOLUTION

FAO Audited Accounts 2018

THE CONFERENCE,

Having considered the report of the 163rd Session of the Council, and

Having examined the 2018 FAO Audited Accounts and the External Auditor's Report thereon

Adopts the Audited Accounts

Budgetary Matters

Adjustments to the Programme of Work and Budget 2020-21

12. The Committee reviewed the *Adjustments to the Programme of Work and Budget (PWB) 2020-21*, noting that they reflected the guidance and decisions of the 41st Session of the Conference as well as initial adjustments proposed by the Director-General.

13. **The Committee:**

- a) **expressed satisfaction** that the proposed adjustments would be managed within the overall approved budget level of USD 1,005.6 million through adjustment of cost increases and efficiencies without negatively impacting the delivery of the agreed Programme of Work;
- b) **noted** the updated information presented on costs increase assumptions for 2020-21;
- c) **welcomed** the additional resources allocated to FAO's work on the International Plant Protection Convention (IPPC) and on the Joint FAO/WHO food safety scientific advice programme;
- d) **requested** that a new stronger Key Performance Indicator (KPI) under Outcome 10.3.E Direction related to sexual harassment be proposed to the May 2020 Session of the Finance Committee, based for example on the convergence of the results from the staff satisfaction survey and reported sexual harassment cases;
- e) **emphasized** the need to ensure adequate funding of the Office of the Inspector General, within existing resources, to address its increased workload, and **requested** its prioritization for future budgetary adjustments and/or transfers to be presented to the May 2020 Session of the Finance Committee, and **noted** expectations that efforts would be made to help the office reduce urgently the backlog of cases;
- f) **reviewed** the proposed adjustments to the Organizational structure and post establishment and noted the updated Organizational structure (Annex 1 of

- CL 163/3) and the revised budgeted post establishment (Web Annex 5 of CL 163/3) would be submitted to the Council for approval; and
- g) **recommended** that the Council approves the revised distribution of the net appropriation by budgetary chapter as presented in Table 3 of document CL 163/3.

Programme and Budgetary Transfers in the 2018-19 Biennium

14. The Committee reviewed document FC 178/5, *Programme and Budgetary Transfers in the 2018-19 biennium*.
15. **The Committee:**
- a) **took note** of the 2018-19 budgetary performance arising from implementation of the Programme of Work and that the final budgetary performance would be reported to the Committee at its session in May 2020;
 - b) **noted** the information provided on the use of the unspent balance of the 2016-17 appropriation and **requested** to be kept informed of the utilization of the Special Fund for Development Finance Activities and the Great Green Wall initiative;
 - c) **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;
 - d) **appreciated** that the requested transfer to Chapter 4 included USD 1 million in additional resources allocated for the Joint FAO/WHO Scientific Advice Programme and the IPPC, in line with the request of the Finance Committee and endorsed by the Council¹;
 - e) expressed concern about the lower level of net appropriation funding in Chapters 10 and 11 and **emphasized** the importance of maintaining appropriate funding for these Chapters in future biennia;
 - f) **noted** that the requested transfers to Chapters 1, 2, 3, 4 and 5 arising from the implementation of the Programme of Work had been previously approved by the Finance Committee at its March 2019 Session; and
 - g) **looked forward** to receiving the final 2018-19 budgetary performance report at its May 2020 Session.

Human Resources

Human Resources Management

16. The Committee reviewed document FC 178/6, on *Human Resources Management*.
17. **The Committee:**
- a) **welcomed** the commitment of the FAO administration to review the Organization's human resources policy and strategy to maximize effectiveness and efficiency in the utilization of this resource for achieving effective programme delivery, and **requested** the Management to prepare a detailed action plan with specific timelines and results to be achieved to improve human resources management;
 - b) **welcomed** the information presented to the Committee and **encouraged** the Management to continue improving the information presented in future reports;
 - c) **encouraged** the Management in its efforts to enhance the Organization's human resources functions, including as regards: i) merit-based selection and recruitment

¹ CL 161/REP paragraph 19d)

- processes and procedures, taking into consideration gender parity and geographical representation as appropriate; ii) streamlined recruitment procedures; iii) development of a job rotation policy; iv) support to initiatives to engage young people and bring fresh ideas to the Organization; v) further measures for the promotion of gender parity in the Organization, in particular in senior level positions; vi) improved performance evaluation practices; and vii) measures to allow strengthened employee engagement;
- d) **requested** the Management to address the issue of delegation of authority as a matter of priority taking into account General Rule XXXVIII (5), lessons learned, past experiences, recent observations and recommendations of oversight bodies as well as best practices in the United Nations System, and report thereon to the Finance Committee at its May 2020 Session.
 - e) **welcomed** the steady expansion of the FAO Global Internship, Volunteers and Fellows (IVF) Programme and encouraged the Management in its continued outreach activities and building of strategic partnerships to further develop the Programme, and **looked forward** to receiving an updated report at its next session;
 - f) **acknowledged** progress made in addressing representation of under- and non-represented countries and **encouraged** the Management to monitor the situation in terms of further improvements in this area;
 - g) **recalled** the guidance of the Council that efforts to improve geographic balance of consultants should take into account the need for a flexible approach in the selection process, including cost implications, and retaining merit as the primary criterion for recruitment.
 - h) **stressed** the importance of reducing the vacancy rate, both in headquarters and in Decentralized Offices, currently witnessing very high percentages of vacant posts;
 - i) **welcomed** Management's assurance that an anonymous staff satisfaction survey, including a section on harassment, sexual harassment and authority abuse, would be carried out in 2019, taking into account best practices and recommendations contained in JIU reports, and that the staff representative bodies would be engaged in the process;
 - j) **looked forward** to receiving an update on the outcome and recommendations arising from the review by the Office of the Inspector General of the staff mobility programme and **requested** the Management to suspend the staff mobility programme for 2020 pending that review;
 - k) **emphasized** the importance of implementing the remaining five recommendations presented in the Audit Report of the Inspector General on "Recruitment and Onboarding of Professional Staff" as well as other outstanding recommendations on human resources matters arising from the reports of the External Auditor and the Audit Committee; and
 - l) **looked forward** to receiving further details on the Organization's vision and plans in the area of human resources as they are developed under the guidance of the new management of FAO.

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)

18. The Committee reviewed document FC 178/7, *Recommendations and Decisions of the International Civil Service Commission to the General Assembly (including Changes in Salary Scales and Allowances)*.

19. The Committee noted the recent developments at the ICSC, including changes made to the compensation package for the professional and higher categories.

Oversight

Progress Report on Implementation of the Audit Committee's Recommendations

20. The Committee examined document FC 178/8, *Progress Report on Implementation of the Audit Committee Recommendations* that presented the updated status of implementation of the Audit Committee recommendations as well as information on management latest actions to address other guidance provided by the Audit Committee.

21. **The Committee:**

- a) **reviewed the status of implementation of recommendations of the FAO Audit Committee;**
- b) **welcomed the significant progress made in implementing recommendations of the Audit Committee and encouraged the Management to implement the remaining outstanding recommendations; and**
- c) **looked forward to a further update on the occasion of the presentation of the Audit Committee's 2019 annual report to be presented at the Finance Committee's 180th Session in May 2020.**

Progress Report on Implementation of the External Auditor's Recommendations

22. The Committee reviewed document FC 178/9, *Progress Report on Implementation of the External Auditor's Recommendations*.

23. **The Committee:**

- a) **reviewed the status of implementation of the recommendations of the External Auditor;**
- b) **welcomed and commended the significant progress made in implementing recommendations of the External Auditor and urged the Management to continue efforts to implement the remaining outstanding recommendations;**
- c) **requested the Management to present at the November 2020 session of the Committee an update on the impact of the change in the business class threshold for travel on costs and programme delivery.**

Review of Whistle-blower Policies and Practices in United Nations System Organizations (JIU/REP/2018/4)

24. The Committee examined document FC 178/10, *Review of whistle-blower policies and practices in United Nations System Organizations (JIU/REP/2018/4)*.

The Committee:

- a) **recalled that this document was presented to the Finance Committee for its consideration in line with guidance from the Joint Meeting of the 126th Session of the Programme Committee and 175th Session of the Finance Committee;**
- b) **requested the Management to submit to the Committee at its Session in May 2020 an update on the status of implementation of the recommendations presented in the JIU Report;**
- c) **noted FAO's endorsement of JIU/REP/2018/4 as well as the related CEB comments (A/73/665/Add.1);**
- d) **expressed appreciation at the publication of FAO's revised Whistle-blower Protection Policy following review and guidance by the Audit Committee (Administrative Circular 2019/06, presented in Appendix A of FC 178/10);**

- e) **further noted** that the Programme of Work and Budget 2020-21 (C 2019/3) included the separation and strengthening of the ethics and ombudsman functions, and **looked forward** to completion of the recruitment process of the two positions; and
- f) **requested** Management to consider establishing a service agreement with another United Nations Organization's Ethics Office to enable further strengthening of the mechanism for reviewing preliminary assessments of complaints of retaliation (Administrative Circular 2019/06, paragraph 35).

Amendments to the Financial Regulations of the Indian Ocean Tuna Commission (IOTC)

25. The Committee reviewed document FC 178/11, *Amendments to the Financial Regulations of the Indian Ocean Tuna Commission*.
26. The Committee **endorsed** the amended Financial Regulations of the Indian Ocean Tuna Commission as adopted by the Commission at its 23rd Session in June 2019.

Office of the Inspector General

27. The Committee reviewed document FC 178/12, *Office of the Inspector General* that covered the following issues: (i) establishment of term limits for the Inspector General; (ii) procedure for the appointment of the Inspector General; (iii) termination of the appointment of the Inspector General prior to its set expiry date; and (iv) matters relating to the Charter of the Office of the Inspector General and the role of the Audit Committee.
28. **The Committee:**
- a) **expressed serious concern** on the undermining of the independence of the Office of the Inspector General that occurred during summer 2019 as expressed in the letter of the Audit Committee dated 28 July 2019 to the Finance Committee;
 - b) **welcomed** the commitment of the new Director-General to ensuring the independence of the Office of the Inspector General;
 - c) **welcomed** the confirmation by the Inspector General *ad interim* that no interference was encountered by the Office of the Inspector General during the course of its audits, or in its inspection, investigations or related activities during the period since his appointment on 14 August 2019;
 - d) **encouraged** the Management to finalize the arrangements addressing the end of the appointment status of the incumbent Inspector General in the best interests of the organization and the incumbent;
 - e) **supported** the proposal to issue a vacancy announcement for the appointment of the Inspector General, which reflected the guidance of the Audit Committee, after notifying the incumbent Inspector General of the termination of his appointment;
 - f) **approved** the proposal to introduce a non-renewable term limit of seven years for the Inspector General's appointment as set out in paragraph 10 of document FC 178/12;
 - g) **requested** preparation of a revised Charter of the Office of the Inspector General to reflect latest best practices in the United Nations system, as well as FAO's strengthened oversight activities, to be submitted for approval to the May 2020 session of the Finance Committee following its review by the Audit Committee;
 - h) as a one time interim procedure, given the urgency of the issues, **recommended** Management adopt the revised charter of the OIG after Audit Committee review and informal Finance Committee consultation, until the Finance Committee could formally approve the policy in May 2020; and
 - i) **emphasized** the need to ensure adequate funding, within existing resources, of the Office of the Inspector General to address its increased workload, and **requested** its prioritization for future budgetary adjustments and/or transfers to be presented to

the May 2020 Session of the Finance Committee, and noted expectations that efforts would be made to reduce urgently the backlog of cases.

Improved Methods of Work and Efficiency of the Finance Committee

Status of Outstanding Recommendations of the Finance Committee

29. The Committee reviewed document FC 178/13, the *Status of Outstanding Recommendations of the Finance Committee*.
30. **The Committee:**
- a) emphasized the importance of preparing a comprehensive methodology on the lapse factor as part of the presentation of the Programme of Work and Budget 2022-23;
 - b) looked forward to receiving information on the recommendations arising from the review of the staff mobility programme by the Office of the Inspector General at a future session on completion of that review;
 - c) recalled the Committee's previous requests for the Ethics Officer to present reports to the Finance Committee and looked forward to resumption of this practice following appointment of the new Ethics Officer; and
 - d) looked forward to receiving an updated version of the document at its next regular session.

Working Methods of the Finance Committee

31. The Committee noted the importance of continually reviewing its methods of work in order to achieve its overarching goals and objectives.
32. **In this regard, the Committee:**
- a) expressed appreciation for the timely receipt of documents in all official languages for its current session and encouraged the Management to maintain this practice at future sessions;
 - b) acknowledged the benefits of the practice followed during its 178th Session of distributing and reviewing draft text following completion of the discussion of each agenda item for inclusion in the Report of the Committee, and agreed to maintain this practice at future sessions; and
 - c) requested the Management to present the progress reports on implementation of recommendations of the External Auditor and of the Audit Committee under one agenda item at future sessions to facilitate the Committee's consideration of these matters.

Other Matters

Date and Place of the Hundred and Seventy-ninth Session

33. The Committee was informed that the 179th Session was scheduled to be held in Rome from 6 to 7 February 2020.

Documents for information

- Status of Current Assessments and Arrears (doc. FC 178/INF/2)
- Audited Accounts - FAO Credit Union 2018 (doc. FC 178/INF/3)
- European Commission for the Control of Foot-and-Mouth Disease Budget for 2020-21 (doc. FC 178/INF/4)
- Animal Production and Health Commission for Asia and the Pacific (APHCA) - Statement of Accounts and Budget for 2019 (doc. FC 178/INF/5)
- Budgets of the Desert Locust Commissions for 2019-20 (doc. FC 178/INF/6)
- Budget of the Indian Ocean Tuna Commission for 2020 (and indicative budget for 2021) (doc. FC 178/INF/7)