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Food and Agriculture
Organization of the
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Unies pour l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الأغذية والزراعة
للأمم المتحدة

COUNCIL

Hundred and Fifty-ninth Session

Rome, 4-8 June 2018

Report of the 170th Session of the Finance Committee (21-25 May 2018)

Executive Summary

At its first regular session in 2018, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 170th 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 date of implementation of the United Nations Resolution on Mandatory Age of Separation (para 23); (iii) on the updated Terms of Reference of the FAO Audit Committee (para 27); and (iv) on the mechanism for setting the level of representation allowances for Deputy Directors-General and Assistant Directors-General (para 34).
- **Informs** Council of its decision to approve the final budgetary transfers for the 2016-17 biennium (para 14).
- **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources and oversight matters.

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CL 159

Suggested action by Council

The Council is requested to:

- a) endorse the recommendations of the Committee on timely payment of assessed contributions, the date of implementation of the United Nations Resolution on Mandatory Age of Separation, the updated Terms of Reference of the FAO Audit Committee, and the mechanism for setting the level of representation allowances for Deputy Directors-General and Assistant Directors-General.
- b) take note of the decision of the Committee on the final budgetary transfers for the 2016-17 biennium.
- c) endorse the Committee's guidance provided to the Secretariat on all other matters within its mandate.

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Introduction

1. The Committee submitted to the Council the following report of its Hundred and Seventieth Session.
2. In addition to the Chairperson, Mr Lupiño Lazaro Jr. (Philippines), the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Mr Ryan Wilson (Australia)
 - Mr Manash Mitra (Bangladesh)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Ni Hongxing (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;
 - Mr Manash Mitra (Bangladesh) had been designated to replace Mr Mafizur Rahman as the representative of Bangladesh for the remainder of the term of office; and
 - Mr Ni Hongxing (China) had been designated to replace Mr Xie Jianmin as the representative of China for the remainder of the term of office.
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 170th Session of the Committee:
 - Belgium
 - Cameroon
 - Canada
 - Cyprus
 - Denmark
 - Dominican Republic
 - Estonia
 - European Union
 - France
 - Finland
 - Hungary
 - Italy
 - Japan
 - Kuwait
 - Netherlands
 - Norway

- Panama
- Poland
- San Marino
- Spain
- United Kingdom

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 170/2, the *Financial Position of the Organization* as at 31 December 2017 and cash flow forecast for 2018.
7. The Committee was also provided with an updated status of current assessments and arrears of the Organization as at 15 May 2018.
8. **The Committee:**
- a) **appreciated the improvements in the format and content of the information presented and requested the Secretariat to continue this in the presentation of future reports;**
 - b) **noted that the latest cash flow forecast information indicated 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 2018;**
 - c) **urged all Member Nations to make timely and full payment of assessed contributions, while recognizing that the Organization's on-going cash flow health was dependent on the timely payment of assessed contributions;**
 - d) **noted that the decrease in the General Fund deficit to USD 893.1 million as at 31 December 2017 from USD 922.2 million as at 31 December 2015 was principally due to favourable returns on long-term investments, while the underfunding of the After Service Medical Coverage Scheme and the Terminal Payments Fund continued to be the main cause of the overall General Fund deficit;**
 - e) **welcomed the continued steady increase in the TCP monthly expenditure rate and encouraged the Secretariat to maintain this trend and ensure full implementation of the TCP appropriation as approved by the Conference;**

Report on Investments 2017

9. The Committee reviewed document FC 170/3, *Report on Investments 2017*.
10. **The Committee:**
- a) **noted the total return on the short-term portfolio for 2017 was 1.00 percent reflecting FAO's low risk investment approach and the continuing low interest rate environment;**
 - b) **appreciated the positive result of the long-term investment portfolio with an overall return of 19.56 percent, while noting that this was lower than the benchmark by 1.08 percent;**
 - c) **noted the solid governance arrangements in place, including the high-level advice provided by the Advisory Committee on Investments and the use of specialized external asset managers in accordance with FAO's detailed written guidelines; and**
 - d) **looked forward to receiving information on the results of the Asset and Liability (ALM) study in the 2018 Report on Investments.**

2017 Actuarial Valuation of Staff Related Liabilities

11. The Committee reviewed document FC 170/4, *2017 Actuarial Valuation of Staff Related Liabilities*, on the results of the annual valuation by external actuaries and the current financial situation, accounting and funding of the Organization's liability for staff-related plans as at 31 December 2017.

12. **The Committee:**

- a) **noted** that total Staff Related Liabilities as at 31 December 2017 amounted to USD 1 527.4 million, representing an increase of USD 208.2 million from the valuation at 31 December 2016, noting that the increase was due mainly to changes in the actuarial assumptions used;
- b) **requested** the Secretariat to consider decreasing the frequency of performance of actuarial valuations in consultation with the External Auditor in the event that fluctuations in the underlying assumptions are minimal; and
- c) while acknowledging that the underfunding of After Service Medical Coverage liabilities was an issue facing all United Nations System Organizations, **requested** the Secretariat to continue its participation in the UN Working Group in order to find a uniform solution to this issue.

Budgetary Matters

Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2016-17 Biennium

13. The Committee reviewed document FC 170/5, *Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2016-17 biennium*.

14. **The Committee:**

- a) **took note** of the final 2016-17 budgetary outturn based on the unaudited accounts of the Organization and the unspent balance of USD 3.9 million;
- b) **recalled** that the unspent balance would be allocated in 2018-19 to provide technical assistance and investment programming for development finance through replenishment of the Special Fund for Development Finance Activities (SFDFA);
- 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 2018-19 biennium as per the Financial Regulations;
- d) **approved** the final budgetary transfers in favour of Chapters 3 (USD 2.9 million), 4 (USD 1.4 million), 5 (USD 2.5 million), 6 (USD 1.9 million), and 8 (USD 1.8 million), as shown in Table 2 of the document (Annex I); and
- e) in approving the budgetary transfers for 2016-17, the Committee also **recalled** the need for sustainable funding solutions for high priority areas of work of the Organization, including scientific advice for food safety and standard setting such as Codex Alimentarius, and **recommended** its consideration for future budgetary transfers.

Human Resources

Human Resources Management

15. The Committee examined document FC 170/6, on *Human Resources Management*.
16. **The Committee:**
- a) **recognized** that more information and statistics had been provided in the document compared to the previous session;
 - b) **requested** that future reports provide additional information on other areas of Human Resources Management at FAO, broken down by funding source as appropriate, including on the mobility policy, use of different contractual arrangements and the balance between professional and general service staff;
 - c) **encouraged** progress in vacancy rates, geographic representation and gender balance and requested further analysis and breakdown of these statistics, including by funding sources as appropriate, and the estimated timeframe for achieving an equitable geographic representation and gender balance targets at the next sessions of the Finance Committee;
 - d) **encouraged** the Secretariat to increase efficiency of human resources processes and procedures, the new recruitment platform and the FAO Shared Service Centre (SSC) and requested the Secretariat to pay due attention to actual conditions for assignments of Assistant FAORs;
 - e) **reiterated** its previous requests to the Secretariat to provide comprehensive statistical data in response to requests by Members consistent with the practices at other RBAs;
 - f) **requested** the Secretariat to re-establish the practice of publishing on a monthly basis on the Members Gateway information relating to geographic representation of staff; and
 - g) **commended** the Secretariat on its efforts to promote multilingualism at the level of headquarters and decentralized offices, and with regards to the language services took note of the management commitment to fill long standing vacancies in translation groups.

Geographical Balance of Consultants

17. The Committee reviewed document FC 170/7, *Geographic Balance of Consultants*.
18. **The Committee:**
- a) **took note** of FC170/7 and acknowledged the importance of having geographic balance of consultants, as with the professional staff in PWB positions;
 - b) **requested** the Secretariat to provide more detailed data to the Finance Committee on geographic distribution of consultants on PWB funded positions, including on the numbers of consultant positions, funding, minimum lengths of contract, and current geographic distribution of these positions;
 - c) **emphasized** the importance of adopting a flexible approach, considering the needs of different working conditions, to avoid disruption of projects and programmes, in particular in Decentralized Offices; and
 - d) **requested** the Secretariat to present a progress report to the autumn 2018 session of the Committee on ongoing efforts to better improve the geographic distribution of consultants.

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

19. The Committee reviewed document FC 170/8, *Recommendations and Decisions of the International Civil Service Commission to the General Assembly (including Changes in Salary Scales and Allowances)*.
20. The Committee noted the recent developments at the ICSC, including changes made to the compensation package for the professional and higher categories.

Date of Implementation of the United Nations Resolution on the Mandatory Age of Separation

21. The Committee reviewed document JM 2018.1/2, *Date of Implementation of the United Nations Resolution on the Mandatory Age of Separation*, that presented the proposed implementation date of Mandatory Age of Separation (MAS) at 65 years for staff employed before 1 January 2014 as stated in UNGA Resolutions 70/244 and 72/255.
22. The Committee examined the financial and legal aspects of the issue presented by the Secretariat.
23. Although it was not possible to agree on a recommendation, following extensive discussions, three main categories of views were expressed by the Members of the Committee:
- a) that the integrity of the UN Common System was paramount and that FAO was therefore legally bound to implement in full and without delay UNGA resolution 70/244 with effect from 1 January 2018;
 - b) that the proposal presented by FAO management, based on their analysis of the benefits and savings of deferred implementation, justified the proposed date of 1 January 2021, and would be up for the decision by the FAO Governing Bodies; and
 - c) that a date between 1 January 2018 and 1 January 2021 could be a compromise, if there was assurance that no financial and legal risks would be incurred.

Oversight

FAO Audit Committee - 2017 Annual Report to the Director-General

24. The Committee reviewed document FC 170/9 Rev.1, *FAO Audit Committee – 2017 Annual Report to the Director-General*.
25. **The Committee:**
- a) **took note of the FAO Audit Committee’s Annual Report for 2017;**
 - b) **acknowledged the important role of the FAO Audit Committee in providing independent assurance and advice;**
 - c) **appreciated the FAO Audit Committee’s advice in relation to strengthening the internal control framework at both headquarters and Decentralized Offices, risk management, governance, and fraud and corrupt practices;**
 - d) **noted the Director-General’s concurrence with the recommendations presented in the Report and reaffirmed its encouragement that the Director-General and the Audit Committee meet at least once a year; and**
 - e) **looked forward to a comprehensive progress report from Management on the implementation of the Audit committee's recommendations at the session of the Finance Committee in autumn 2018.**

Terms of Reference of the FAO Audit Committee

26. The Committee reviewed document FC 170/10, *Terms of Reference of the FAO Audit Committee*.

27. **The Committee**

- a) **reviewed the revised update of the Audit Committee's Terms of Reference including further amendments introduced following discussion of this item at its formal and informal sessions and Management's comments thereon;**
- b) **concurred with the updated text of the Terms of Reference of the FAO Audit Committee (Annex II); and**
- c) **agreed to submit the updated Terms of Reference to the Council for its endorsement.**

2017 Annual Report of the Inspector General

28. The Committee reviewed document FC 170/11, *2017 Annual Report of the Inspector General* that contained information on the audit, investigative and inspection work of the Office in 2017 as well as its internal management.

29. **The Committee:**

- a) **appreciated the quality of the report and the analysis of issues presented, which covered the full range of responsibilities under the mandate of the Office of the Inspector General, noting that the work of the Office of the Inspector General presented was very relevant and a useful tool for the management and governance of the Organization;**
- b) **welcomed and encouraged the good cooperation and convergence of views on internal control issues, between the Office of the Inspector General and management, and efforts to promote implementation of control improvements;**
- c) **reiterated the importance of continued attention by management to strengthening internal control, in particular in high risk areas and Decentralized Offices;**
- d) **expressed concern regarding the OIG findings of under reporting on sexual exploitation and abuse (SEA) and sexual harassment (SH) and encouraged further OIG investigations, including on fraud, SEA and SH and requested actions from the Secretariat on those findings;**
- e) **noted with concern the staff vacancies in the Office of the Inspector General and encouraged its ongoing recruitment efforts; and**
- f) **appreciated the progress made in successfully closing a large number of recommendations and urged the Secretariat to continue its ongoing efforts.**

Appointment of the External Auditor for the period 2020-25

30. The Committee reviewed document FC 170/12, *Appointment of the External Auditor for the period 2020-25*, which presented the arrangements for the tender, selection and appointment of the new External Auditor for the six year period 2020-25.

31. **The Committee:**

- a) **reviewed and noted the arrangements for the selection and appointment of the External Auditor for the six-year period 2020-2025;**
- b) **requested that the Secretariat initiate the selection process by inviting proposals from eligible Auditors-General of Members of FAO and present a progress report on the Selection and Appointment Process to its next regular session; and**

- c) **agreed that the following Members of the Finance Committee: Australia; Brazil; China; Egypt; Equatorial Guinea; Germany; and USA would participate in the Working Group that would prepare a shortlist of the best proposals, following which the shortlisted Auditors-General would be invited to deliver an oral presentation to the Finance Committee.**

Improved Methods of the Finance Committee

32. **The Committee:**

- a) **encouraged the Secretariat to review options that would improve the process of preparation of the conclusions for each agenda item;**
b) **requested that a document on the status of outstanding recommendations of the Committee be prepared for consideration at the start of each regular session;**
c) **recommended that the provisional timetable reflect, as far as possible, planned evening sessions of the Committee;**
d) **supported the practice of holding informal meetings of the Committee prior to its main sessions;**
e) **emphasized the importance of receiving documents from the Secretariat in all FAO languages in accordance with the established time limits in order that the Committee would have sufficient time to review documentation prior to the session;**
f) **recommended that the introduction of agenda items be kept brief to maximize the time available for discussion by the Members; and**
g) **reaffirmed the prerogative of Members to hold restricted meetings.**

Other Matters

Representation Allowance for Deputy Directors-General and Assistant Directors-General

33. The Committee reviewed document FC 170/14, *Representation Allowance for Deputy Directors-General and Assistant Directors-General* on the mechanism for setting the level of representation allowances for Deputy Directors-General and Assistant Directors-General.

34. **The Committee:**

- a) **recommended that the current mechanism of automatic adjustment of the level of the representation allowance be discontinued; and**
b) **requested the Secretariat to submit to the March 2019 Session of the Committee a proposal on future levels and conditions for the allowance.**

Update on Commissary Closure and Related Matters

35. The Committee reviewed document FC 170/15, *Update on Commissary Closure and Related Matters* which provided updates and information related to the closure of the Commissary, as well as proposals as to the future use of the Commissary reserve funds and mechanisms to finance the Staff Welfare Fund.

36. **The Committee:**

- a) **noted the information provided on the Commissary closure process related activities;**
b) **encouraged the Secretariat to explore available business model options and inform the Committee at a future session; and**

- c) **took note** of the proposals on the use of the former Commissary reserves and support to staff welfare.

Implementing a Sustainable Funding Solution to the FAO's Work and Activities relating to Food Safety Scientific Advice for Codex Alimentarius

37. The Committee reviewed document FC 170/16, *Implementing a Sustainable Funding Solution to the FAO's Work and Activities relating to Food Safety Scientific Advice for Codex Alimentarius*.

38. **The Committee:**

- a) **supported** Management's proposals for a sustainable funding solution to FAO's work and activities relating to Food Safety Scientific Advice for Codex Alimentarius;
- b) **endorsed** the proposal to establish a new multi-donor Trust Fund (MUL Trust Fund) to support the functioning of the Committee for Scientific Advice, including the governance and reporting arrangements presented in the document;
- c) **encouraged** contributions from member countries and non-state actors that would be pooled into the MUL Trust Fund and noted the need for a dissemination strategy to support expansion of the resource base, including appropriate private sector engagement with the MUL Trust Fund;
- d) **emphasized** the importance of safeguarding the independence and impartiality of the Scientific Advice Programme from real and perceived risks of undue influence, which could be linked to the receipt of funds from the private sector; and
- e) **encouraged** the Secretariat's continuous engagement, with WHO, on identifying and implementing sustainable funding solutions for work and activities relating to Food Safety Scientific Advice for Codex Alimentarius,

Date and Place of the Hundred and Seventy-first Session

39. The Committee was informed that the 171st Session was scheduled to be held in Rome from 29 to 31 May 2018.

Any Other Matters

40. The Committee **requested** that the Results Framework 2018-19 for functional objectives be considered at its autumn 2018 session .

Annex I - Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2016-17 Biennium

EXECUTIVE SUMMARY

- The Finance Committee in November 2017 reviewed the Programme and Budgetary Transfers in the 2016-17 Biennium¹. It took note of the forecasted unspent balance of USD 5 million against the Conference-approved net appropriation of USD 1,005.6 million, noted the previously approved transfers to Chapters 2, 3, 4, 5, 6, 8 and 9 and that the transfer in Chapter 2 was no longer required; and looked forward to the final report at its May 2018 session.
- This report presents the final 2016-17 budgetary outturn based on the unaudited accounts of the Organization. Final 2016-17 spending represents 99.6 percent of the biennial appropriation, resulting in a unspent balance of USD 3.9 million.
- Transfers to Chapters 3, 4, 5, 6 and 8 are in line with those previously approved and the transfer to Chapter 9 is no longer necessary.
- As authorised by the Conference at its 40th Session in July 2017 and confirmed by the Council at its 158th Session in December 2017, the unspent balance of USD 3.9 million will be allocated in 2018-19 through replenishment of the Special Fund for Development Finance Activities (SFDFA).

¹ FC 169/7

Introduction

1. Conference Resolution 6/2015 approved the 2016-17 budgetary appropriation of USD 1,005.6 million and authorised the Director-General, notwithstanding Financial Regulation (FR) 4.2, to use any unspent balance of the 2014-15 appropriations for any additional expenditures of a one-time nature associated with consolidation of transformational change². The Council in December 2015 endorsed the Adjustments to the Programme of Work and Budget (PWB) 2016-17³.
2. Financial Regulation (FR) 4.1 authorizes the Director-General to incur obligations up to the budgetary appropriation voted by the Conference. In accordance with FR 4.6, the Director-General manages the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium. The FR 4.5 (a) calls for the Finance Committee to be notified of certain transfers between divisions and FR 4.5 (b) requires transfers from one chapter to another to be approved by the Finance Committee.
3. The Finance Committee at its November 2017 session 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. It took note of the forecasted unspent balance of USD 5 million against the 2016-17 biennial appropriation.
4. The Conference authorized the Director-General, notwithstanding Financial Regulation 4.2, to use any unspent balance of the 2016-17 appropriations for one-time use to support programmes of the Organization, including for the Special Fund for Development Finance Activities, in agreement with the Joint Meeting of the Programme and Finance Committees, and the Council at their meetings in November-December 2017⁴.
5. The Council at its 158th session approved the recommendation by the Joint Meeting to allocate the unspent balance of the 2016-17 appropriations through replenishment of the Special Fund for Development Finance Activities (SFDFA), to advance financing to provide technical assistance and investment programming for development finance. In addition, it approved allocation of fifty percent of unspent balance above a threshold of USD 5 million, up to a maximum of USD 1 million, towards the Blind Trust fund aimed at supporting a sustainable funding solution for FAO's work relating to scientific advice for food safety and the Codex Alimentarius.⁵
6. This report presents, for discussion and approval, the final budgetary performance against the 2016-17 net appropriation.

Overall Biennial Performance

7. Table 1 summarizes overall budgetary performance versus the 2016-17 appropriation. The performance is based on the actual expenditure in the unaudited accounts of the Organization, adjusted for the budget US dollar/euro exchange rate of 1.22 established in the PWB 2016-17. Any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) are transferred for use in the subsequent financial period in line with the Financial Regulations, and are therefore shown as fully spent.

² Conference Resolution 6/2015 paragraph 2

³ CL 153/3, CL 153/REP paragraphs 7-8

⁴ C 2017/REP paragraph 76

⁵ CL 158/REP paragraph 10.a)

Table 1: Overview of 2016-17 Regular Programme Performance (USD 000)

	USD 000
2016-17 Net Appropriation (CR 6/2015)	1,005,635
2016-17 Net Expenditure at Budget Rate	1,001,767
Balance against 2016-17 Net Appropriation to be transferred to 2018-19 to SFDFA	3,868
Carry Over of 2014-15 Unspent Net Appropriation Balance (CR 6/2015)	5,567
2016-17 Net Expenditure at Budget Rate funded from 2014-15 Carry Over	5,567
Balance against 2014-15 Carry Over	0

8. As shown in Table 1, the Organization expended a total of USD 1,001,767,000 against the 2016-17 net appropriation. In addition, as forecast in November 2017 and reported in the PIR 2016-17,⁶ the Organization fully spent the carryover of the 2014-15 unspent net appropriation balance made available in 2016-17 for any additional expenditures of a one-time nature associated with consolidation of transformational change, as authorised by Conference Resolution 6/2015.

9. An unspent balance of USD 3.9 million is recorded against the 2016-17 net appropriation of US 1,005.6 million (99.6 percent spent). As authorised by the Conference at its 40th Session in July 2017 and confirmed by the Council at its 158th Session in December 2017, the unspent balance of USD 3.9 million will be allocated in 2018-19 through replenishment of the Special Fund for Development Finance Activities (SFDFA) to advance financing to provide technical assistance and investment programming for development finance.

10. As reported to the Finance Committee⁷, a favourable staff cost variance, i.e. the difference between budgeted and actual staff costs, was anticipated in the 2016-17 biennium. The main factors contributing to the final favourable variance of USD 41.1 million relate to the strengthened United States Dollar in the Decentralized Offices, the extended freeze in professional salary scales and GS salary scales for headquarters and for some other duty stations; the change in the Basic Medical Insurance Plan (BMIP); and, the decrease estimated in the current service cost of the After-service Medical Coverage (ASMC). The resulting savings covered the USD 2.7 million savings requested by Conference and contributed to strengthened programme delivery.

Budgetary Transfers between Chapters

11. The final budgetary chapter transfers against the 2016-17 biennial appropriation are tabulated in Table 2. All transfers fall within the limits authorised by the Finance Committee in November 2017; the transfer into Chapter 9 forecast in November 2017 is no longer necessary.

12. As anticipated to the Finance Committee in November 2017⁸, additional efficiencies were achieved in 2016-17 in Chapters 10 (Governance) and 11 (Administration) stemming from restructuring of the Shared Services Centre (USD 2.2 million) and the outsourcing of printing and distribution work and streamlining of language services undertaken by the Conference, Council and

⁶ FC169/7, paragraph 15 and C 2019/8

⁷ FC 169/7, paragraphs 12 - 14

⁸ FC 169/7, paragraph 8

Protocol Affairs Division (CPA) (USD 4.6 million). Additional underspending in these two chapters was mainly the result of the lower than budgeted actual staff costs.

13. The USD 6.8 million in efficiency savings achieved in the Functional Objectives was reallocated to the five Strategic Programmes and to Objective 6 (Technical quality, knowledge and services) which allowed for accelerated programme delivery and for additional support in the development of climate projects.

14. Table 2: 2016-17 Budgetary Performance by Chapter (USD 000)

Ch (a)	Strategic or Functional Objective (b)	Adjusted PWB 2016- 17 CL 153/3 (c)	Forecasted Net Expenditure from November 2017 FC 169/7 (d)	Final Net Expenditure funded from 2016-17 Net Appropriation (at Budget Rate)* (e)	Balance vs. Appropriation (f=c-e)	Budgetary Chapter Transfers (g)
1	Contribute to the eradication of hunger, food insecurity and malnutrition	84,391	82,097	83,759	632	0
2	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	200,735	198,127	199,623	1,112	0
3	Reduce rural poverty	65,707	67,383	68,523	(2,816)	2,850
4	Enable more inclusive and efficient agricultural and food systems	105,266	105,942	106,638	(1,372)	1,400
5	Increase the resilience of livelihoods to threats and crises	50,841	51,946	53,316	(2,475)	2,500
6	Technical quality, knowledge and services	59,215	64,505	61,048	(1,833)	1,850
7	Technical Cooperation Programme	138,131	138,131	138,131	0	
8	Outreach	77,740	80,955	79,510	(1,770)	1,800
9	Information Technology	35,437	35,580	35,120	317	
10	FAO governance, oversight and direction	76,983	69,634	68,858	8,126	(7,900)
11	Efficient and effective administration	71,275	67,022	67,928	3,347	(2,500)
12	Contingencies	600	0		600	
13	Capital Expenditure	16,892	16,892	16,892	0	
14	Security Expenditure	22,420	22,420	22,420	0	
Total		1,005,635	1,000,635	1,001,767	3,868	0

* The Net Expenditure total in column (e) excludes USD 5.6 million funded from the 2014-15 carryover, over and above 2016-17 net appropriation.

15. Compared to the forecast in November 2017, the spending in Chapter 6 (Technical quality, knowledge and services) was lower than anticipated primarily due to lower expenditure for the development of projects for submission to the Green Climate Fund; this lower-than-anticipated spending contributed to the overall unspent balance.

16. As previously anticipated⁹, some variations by chapter occurred due to percentages of final expenditure in Euro being at variance with those forecasted, mainly in Chapters 10 (FAO governance) and 11 (Administration).

17. Chapter 13 (Capital Expenditure) generated a surplus of USD 12.0 million to be carried forward for use in subsequent biennia under the Capital Expenditure Facility. The 2016-17 level of expenditure reflects the fact that no major IT projects, which have a long-term cyclical nature, were programmed in the biennium.

18. Chapter 14 (Security Expenditure) generated a surplus of USD 2.7 million to be carried forward for use in subsequent biennia under the Security Expenditure Facility. The 2016-17 level of expenditure reflects the ongoing rationalization of corporate services that resulted in the consolidation of headquarters security services with the field security unit in DDO, as well as efforts to ensure appropriate financing of all security-related expenditures from assessed and voluntary contributions.

19. In accordance with the FR 4.5 (b), the Committee is requested to approve the required transfers from budgetary Chapters 10 and 11 in favour of Chapters 3 (USD 2.9 million), 4 (USD 1.4 million), 5 (USD 2.5 million), 6 (USD 1.9 million) and 8 (USD 1.8 million) as shown in column (g) of Table 2. Any unspent balances in the Technical Cooperation Programme (Chapter 7), Capital Expenditure (Chapter 13) and Security Expenditure (Chapter 14) will be transferred for use in the subsequent financial period in line with the Financial Regulations, and are therefore shown as fully spent.

⁹ FC 169/7, paragraph 11

Annex II - Updated Terms of Reference of the FAO Audit Committee

Current Terms of Reference	Proposed changes to Terms of Reference
<p><u>Purpose</u></p> <p>1.1 The Audit Committee serves as an expert advisory panel to assist the Director-General on the internal control arrangements, risk management processes, financial reporting and internal functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.</p>	<p>Changes from current text are in italic and bold</p> <p><u>Purpose</u></p> <p>1.1 The Audit Committee serves as an expert advisory panel to assist <i>the Director General and the Finance Committee</i> on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection, investigation <i>and ethics</i> functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.</p>
<p>1.2 The Audit Committee provides information to the Governing Bodies in these areas, through its annual reports being made available, and the Chair or other designated member presenting on this report directly, to the Finance Committee.</p>	<p>1.2 The Audit Committee provides <i>advice and</i> information to the Governing Bodies in these areas, through its annual reports <i>being-made-available and as appropriate, updates to the Finance Committee during the intervening period. and the Chair or other designated member presenting on this report directly, to the Finance Committee.</i></p>
<p>1.3 With regard to internal audit, inspection and investigation, the Committee operates in an advisory capacity to the Office of the Inspector General (OIG). As such it assists the Inspector General with regard to ongoing quality of performance of the Office.</p>	<p>1.3 With regard to internal audit, inspection, investigation, <i>and ethics</i>, the Committee operates in an advisory capacity to the Office of the Inspector General (OIG) <i>and the Ombudsman/Ethics Office (EO) respectively</i>. As such it assists the Inspector General and the <i>Ombudsman/ Ethics Officer</i> with regard to ongoing quality of performance <i>of these functions</i>.</p>
2. Responsibilities	2. Responsibilities

<p>2.1 The Committee reviews and advises the Director-General on:</p> <p>a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:</p> <ul style="list-style-type: none"> i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor; ii) the arrangements for the external audit of the Organization and their implementation; iii) the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting. <p>b) the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the organization, including consideration of:</p> <ul style="list-style-type: none"> i) the Organization's improvement projects concerning internal controls and risk management; ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits. <p>c) the Organization's policies to combat fraudulent, corrupt and collusive practices for its employees and external parties, including improper use of the Organization's resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.</p> <p>d) the effectiveness and efficiency of OIG's internal audit, inspection and investigation functions, and adherence to the Charter of the Office of the Inspector General, the Guidelines on Internal Administrative Investigations and to applicable international internal auditing and investigation standards, including consideration of:</p> <ul style="list-style-type: none"> i) the independent role of the Inspector General and his/her Office; 	<p>2.1 The Committee reviews and advises the Director General and <i>the Finance Committee</i> on:</p> <p>a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:</p> <ul style="list-style-type: none"> i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor; ii) the arrangements for the external audit of the Organization and their implementation; iii) the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting. <p>b) the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the Organization, including consideration of:</p> <ul style="list-style-type: none"> i) the Organization's improvement projects concerning internal controls and risk management; ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits. <p>c) the Organization's policies to combat fraudulent, corrupt and collusive practices <i>of</i> its employees and external parties, including improper use of the Organization's resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.</p> <p>d) the effectiveness and efficiency of OIG's internal audit, inspection and investigation functions, and adherence to the Charter of the Office of the Inspector General, the Guidelines on Internal Administrative Investigations and to applicable international internal auditing and investigation standards, including consideration of:</p>
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<p>ii) the sufficiency of resources available for OIG to meet the Organization's needs;</p> <p>iii) OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;</p> <p>iv) the adequacy of planned and actual internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed by OIG on high-risk areas;</p> <p>v) audit reports issued by OIG and the status of implementation by the Organization of the recommendations;</p> <p>vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings;</p> <p>vii) OIG's quarterly and annual reports.</p>	<p>i) the independent role of the Inspector General and his/her Office;</p> <p>ii) the sufficiency of resources available for OIG to meet the Organization's needs;</p> <p>iii) OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;</p> <p>iv) the adequacy of planned and actual internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed by OIG on high-risk areas <i>in coordination with the external auditor</i>;</p> <p>v) audit reports issued by OIG and the status of implementation of the recommendations by the Organization;</p> <p>vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions taken by the Organization on the findings;</p> <p>vii) OIG's quarterly and annual reports;</p> <p>viii) <i>changes to the OIG charter and operational manuals required to maintain alignment with Organizational and professional practices</i>;</p> <p>ix) <i>proposals of the Organization to recruit, terminate or not renew the appointment of an Inspector General.</i></p> <p>e) <i>All matters pertaining to the formulation, development and implementation of the Organization's ethics programme, including:</i></p> <p>i) <i>the ethics activities of the Ombudsman/Ethics Officer on the basis of annual reports referred to the Committee by the Ombudsman and Ethics Office;</i></p> <p>ii) <i>the main individual components of the ethics programme, including any relevant policies, regulations and rules, and training;</i></p> <p>iii) <i>the Organization's financial disclosure programme or programmes aimed at preventing or addressing conflict of interest;</i></p>
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	<p>iv) <i>the adequacy of resources to effectively carry out its ethics responsibilities.</i></p>
	<p>2.2 <i>The Committee ensures that there is proper coordination of oversight activities between internal and external audit functions. While doing so the Committee does not interfere with the respective mandate and independence of the different functions.</i></p>
<p>2.2 The Committee establishes an annual plan to ensure the Committee's responsibilities and stated objectives for the period are effectively addressed.</p>	
<p>2.3 Submits an annual report on its activities for the Director-General who subsequently provides the FAO Finance Committee with a copy, together with any additional comments that the Director-General wishes to make on it.</p>	<p>2.4 Submits an annual report on its activities to the Finance Committee and the Director-General who may provide comments on the report as desired.</p>
<p>3. Authority</p> <p>3.1 The Audit Committee has the authority to:</p> <ul style="list-style-type: none"> • obtain all necessary information and consult directly with the Inspector General and his/her staff; • access all reports and working papers produced by OIG; • seek any information from any staff member and require all staff to cooperate with any request made by the Audit Committee; • obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary. 	<p>3. Authority</p> <p>3.1 The Audit Committee has the authority to:</p> <ul style="list-style-type: none"> • obtain all necessary information and consult directly with the Inspector General and the Ombudsman/Ethics Officer and their respective staff; • access all reports and working papers produced by OIG; • seek any information from any staff member and require all staff to cooperate with any request made by the Audit Committee; • obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary.

<p>4. Membership</p> <p>4.1 The Committee consists of five external members and a Secretary ex-officio. All members and the Secretary are appointed by the Director-General.</p>	<p>4. Membership</p> <p>4.1 The Committee consists of five external members and a Secretary ex-officio. All members and the Secretary are appointed by the Director-General <i>on recommendation of the Finance Committee following a selection process managed by the Director General.</i></p>
<p>4.2 The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.</p>	<p>4.2 The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.</p>
<p>4.3 Members are selected on the basis of their qualifications as senior audit and/or investigation professionals. Due regard is paid in their selection to gender and geographic representation in the Committee.</p>	<p>4.3 Members are selected on the basis of their qualifications <i>and relevant experience at senior level in the areas of: oversight including audit, investigation and ethics, financial management, governance, risk and controls.</i> Due regard is paid in their selection to gender and geographic representation in the Committee.</p>
<p>4.4 Members are independent of the FAO Secretariat and the Director-General. Former members of the FAO Secretariat are not appointed to the Audit Committee within a period of two years following the end of those responsibilities.</p>	<p>4.4 Members are independent of the FAO Secretariat and the Director-General. Former members of the FAO Secretariat are not appointed to the Audit Committee within a period of two <i>five</i> years following the end of those responsibilities.</p>
<p>4.5 Members serve in their personal capacity and cannot be represented by alternate attendees.</p>	
<p>4.6 The Committee elects its own Chairperson from within their number.</p>	<p>4.6 The Committee elects its own Chairperson from within their number <i>its members.</i></p>
<p>4.7 Members serve for a three-year period, which may be renewed for a maximum of three further years after the initial term, at the discretion of the</p>	<p>Members serve for a three-year period, which may be renewed for a maximum of three further years after the initial term at the discretion of the</p>

<p>Director-General. Members' terms of office are phased as much as possible so as to provide continuity. Renewal is subject to a positive assessment of the member's contribution during his or her first term.</p>	<p>Director-General by a decision of the Council. Members' terms of office are phased as much as possible so as to provide continuity. Renewal is subject to a positive assessment of the member's contribution during his or her first term.</p>
<p>5. Secretariat</p> <p>5.1 The Secretary of the Audit Committee is the Inspector General ex officio, who shall report directly to the Chairperson on matters relating to the work of the Audit Committee. OIG provides Secretariat staff support.</p>	
<p>6. Meetings</p> <p>6.1 At the discretion of the Chairperson, the Committee meets at least three times a year. Additional meetings may be called by the Chairperson if deemed appropriate. The Director-General, Inspector General or External Auditor may request the Chairperson to call additional meetings if necessary.</p>	<p>6. Meetings</p> <p>6.1 At the discretion of the Chairperson, the Committee meets at least three times a year. Additional meetings may be called by the Chairperson if deemed appropriate. The Director-General, Inspector General, Ombudsman/Ethics Officer or External Auditor may request the Chairperson to call additional meetings if necessary.</p>
<p>6.2 The members of the Audit Committee are normally given at least ten working days' notice of meetings.</p>	
<p>6.3 The Chairperson approves a provisional agenda for the meetings that should be circulated together with the invitations.</p>	
<p>6.4 Supporting documents are prepared by the Chairperson or by the Audit Committee Secretariat on the instruction of the Chairperson or on the Secretary's initiative. Documents may also be submitted by the External Auditor or, with the approval of the Chairperson, by Management or other committees of the Organization. The documents and informational material circulated for the consideration of the Audit Committee are used solely for that purpose and treated as confidential.</p>	

<p>6.5 The presence of all five members is expected at each meeting but meetings can take place with a quorum of three members. The Secretary to the meeting has no voting rights. The Audit Committee's decisions are usually taken by consensus but if this is not the case by the majority of the members present and voting. Should the votes be equally divided, the Chairperson has the casting vote.</p>	
<p>6.6 The Chairperson or other Members may participate in a meeting by telephone or video conference link, during which time they are counted, the purpose of establishing a quorum.</p>	
<p>6.7 If the Chairperson is unable to attend a meeting, the other Members elect an Acting Chair for that meeting from among the members present.</p>	
<p>6.8 The Chairperson may invite OIG or other FAO staff, or the external auditor, to attend meetings.</p>	<p>6.8 The Chairperson may invite OIG, <i>the Ombudsman/EO</i> or other FAO staff; or to attend meetings. <i>The Chairperson may also invite the external auditor to attend meetings.</i></p>
<p>6.9 The Audit Committee may decide to meet in closed session from time to time as determined by the Committee, or in private sessions with the Secretary, with management representatives or the representative of the external auditor.</p>	<p>6.9 The Audit Committee may decide to meet in closed session from time to time as determined by the Committee, or in private sessions with the Secretary, with management representatives or the representative of the external auditor. <i>The Committee shall meet at least once a year in private sessions with the IG, and the Ombudsman/EO. The Committee shall also meet with the External Auditor in a private session at least once a year.</i></p>
<p>6.10 Minutes of meetings are prepared and kept by the Secretariat. The Audit Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.</p>	<p>6.10 Minutes of meetings are prepared and kept by the Secretariat <i>Audit Committee Secretary</i>. The Audit Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.</p>
<p>6.11 The deliberations of the Audit Committee and the minutes of its meetings are shared with the Director-General, the Cabinet and with OIG</p>	<p>6.11 The deliberations of the Audit Committee and the minutes of its meetings are <i>shared with the Director-General, the Cabinet, the EO and</i></p>

<p>staff, but are otherwise confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with other FAO senior managers, or request the Secretariat to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.</p>	<p>with OIG staff, but are otherwise confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with other the Director-General, the Ombudsman/EO the OIG staff and other FAO senior managers, or request the Secretariat Audit Committee Secretary to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.</p>
<p>7. Conflicts of Interest</p> <p>7.1 Prior to their appointment, new members complete a conflicts of interest declaration. Where an actual or potential conflict of interest arises, the interest is to be declared and results in the member/s being excused from the discussion or abstaining from voting on the matter. In such event, a quorum is required from the remaining members for the consideration of this matter.</p>	
<p>8. Responsibilities and Liabilities of Members</p> <p>8.1 Members act in an independent, non-executive capacity while performing their advisory role on the Audit Committee. As such, members are not to be held personally liable for decisions taken by the Audit Committee acting as a whole.</p>	
<p>8.2 Audit Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Audit Committee, so long as such activities were performed in good faith.</p>	
<p>9. Reporting</p>	<p>9. Reporting</p>

<p>9.1 The Committee reports to the Director-General and all reports of the Committee are addressed to him or her. The Audit Committee prepares an annual report on its work for the Director-General, which is presented to the Finance Committee each year along with any comments of the Director-General. The report includes an annual self-evaluation of the Committee's work. The Chairperson of the Audit Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.</p>	<p>9.1 The Committee <i>shall submit</i> reports to the Director General <i>and the Finance Committee</i> and all reports of the Committee are addressed to him or her. The Audit Committee prepares an annual report on its work <i>containing advice, observations and recommendations, as appropriate for the Director-General, which is presented to consideration by the Director General and the Finance Committee.</i> Each year along with any comments of the Director-General. The report includes an annual self-assessment <i>evaluation</i> of the Committee's work. <i>The report provides the Committee's views regarding how OIG addresses identified high-risk areas through its plan and the adequacy of its budget to carry out the said plan. The report also provides the Committee's views on the annual OIG report including its statement of independence.</i> The Chairperson of the Audit Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.</p>
<p>9.2 The Chairperson communicates with the Director-General's designated focal point on the results of the Committee's deliberations as well as on forthcoming issues relevant to its business.</p>	<p>9.2 The Chairperson communicates with the Director-General's designated focal point on the results of the Committee's deliberations, <i>if not deemed confidential</i>, as well as on forthcoming issues relevant to its business.</p>
<p>10. Remuneration and Reimbursement of Costs</p> <p>10.1 Members are not remunerated by FAO for activities undertaken with respect to their membership of the Audit Committee. FAO reimburses Committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.</p>	
<p>11. Periodic Review of the Terms of Reference</p> <p>11.1 The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.</p>	<p>11. Periodic Review of the Terms of Reference</p> <p>11.1 The Committee periodically, <i>and at least every three years</i>, reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General Director General and the <i>Finance Committee</i> for subsequent submission to the Council for decision.</p>

Annex III - Documents for information

- Status of Current Assessments and Arrears