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# COUNCIL

## Hundred and Sixty-eighth Session

29 November–3 December 2021

### Report of the 188th Session of the Finance Committee (Rome, 8-12 November 2021)

#### Executive Summary

At its second regular session in 2021, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 188th Session, the Committee:

- 1) **Makes specific recommendations** to the Council: (i) urging Members to make timely and full payment of assessed contributions (para 9); (ii) on the Audited Accounts for 2020 (para 12); and (iii) on adjustments to the Programme of Work and Budget 2022-23 (para 14).
- 2) **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary, oversight and other matters.

#### Suggested action by the Council

The Council is requested to:

- a) **endorse** the recommendations of the Committee on timely payment of assessed contributions, on the Audited Accounts for 2020, and on adjustments to the Programme of Work and Budget 2022-23;
- b) **note** 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 Eighty-eighth Session.
2. In addition to the Chairperson, Ms Imelda Smolčić Nijers (Uruguay), the following representatives of Members were present:
  - Ms Lynda Hayden (Australia)
  - Mr Mina Rizk (Egypt)
  - Ms Demitu Hambisa Bonsa (Ethiopia)
  - Mr Kuraya Yoshihiro (Japan)
  - Mr Miguel Jorge García Winder (Mexico)
  - Ms Tahirou Rahila Rabiou (Niger)
  - Mr Tomás Alberto Duncan Jurado (Panama)
  - Mr Vladimir V. Kuznetsov (Russian Federation)
  - Ms Pernilla Ivarsson (Sweden)
  - Mr Thanawat Tiensin (Thailand)
  - Ms Jennifer Harhigh (United States of America)
3. The Chairperson informed the Committee that:
  - Mr Mina Rizk (Egypt) had been designated to replace Mr Haitham Abdelhady Elshahat as the representative of Egypt for this session;
  - Mr José Luis Delgado Crespo (Mexico) had been designated to replace Mr Miguel Jorge García Winder as the representative of Mexico for part of this session;
  - Mr Mohammed Ahmed M. Alghamdi (Saudi Arabia) had informed that he was unable to attend this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. The 188th Session of the Finance Committee was convened in a hybrid setting with some representatives of Members participating in person at FAO headquarters and others participating virtually on an exceptional basis due to the COVID-19 pandemic. The Finance Meeting confirmed, pursuant to Rule VII of the rules of procedure of the Finance Committee, that it agreed to suspend the rules that may be incompatible with the hybrid session.
6. In addition, silent observers from the following Members attended the 188th Session of the Committee:
  - Austria
  - Bangladesh
  - Belgium
  - China
  - Colombia
  - Congo
  - Costa Rica
  - Denmark
  - Dominican Republic
  - European Union
  - Haiti
  - Hungary
  - Italy
  - Luxembourg
  - Morocco
  - Pakistan
  - Philippines
  - Poland
  - Portugal
  - Ukraine
  - United Kingdom of Great Britain and Northern Ireland
  - Venezuela (Bolivarian Republic of)

## Monitoring Financial Position

### Financial Position of the Organization

7. The Committee reviewed the *Financial Position of the Organization* as at 30 June 2021 and cash flow forecast, 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.
8. The Committee was also provided with an updated status of current assessments and arrears of the Organization as at 31 October 2021.
9. **The Committee:**
- a) **welcomed the information reported 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 2021;**
  - b) **recognizing that the Organization's ongoing cash flow health was dependent on the timely payment of assessed contributions, urged Member Nations to make payments of assessed contributions on time and in full;**
  - c) **recalled the request of the 42nd Session of the Conference for the conduct of a comprehensive review of the process for reinstating voting rights for Member Nations in arrears for consideration by the relevant Governing Bodies;**
  - d) **noted that as reported at its previous sessions, the overall level of the deficit was primarily due to unfunded charges for staff related liabilities;**
  - e) **encouraged Management 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 continue to report to the Finance Committee on the steps taken to address the issue; and**
  - f) **noted the information provided on TCP approval and expenditure rates and emphasized the importance of maintaining TCP expenditure at a level that ensures full implementation of the TCP appropriation as approved by the Conference.**

### Audited Accounts - FAO 2020 and Management Response to the Recommendations presented in the Report of the External Auditor for 2020

10. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for 2020, 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.
11. **The Committee:**
- a) **expressed appreciation to Management for the presentation of the FAO Audited Accounts for 2020, prepared in accordance with International Public Sector Accounting Standards (IPSAS);**
  - b) **expressed satisfaction that the External Auditor had issued an unmodified audit opinion on the FAO Accounts for 2020;**
  - c) **commended the External Auditor for the quality of the Long Form Report and endorsed the recommendations contained therein;**
  - d) **noted the detailed management responses to the External Auditor's recommendations and encouraged Management in their implementation within the time frames suggested by the External Auditor;**

- e) **expressed concern over the impact of unfunded employee benefit obligations on the financial position of the Organization as reflected in the Report of the External Auditor, and encouraged Management to take action to implement the relevant recommendation of the External Auditor; and**
- f) **commended the improvements in the structure and content of the Statement of Internal Control and encouraged Management to continue to take measures to strengthen internal controls in the Organization, in particular by taking further steps to ensure that internal control questionnaires better reflect the actual status of Internal Controls.**

12. 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 2020. The Committee accordingly agreed to submit to the Council the draft resolution below for forwarding to the Conference:

### DRAFT CONFERENCE RESOLUTION

#### FAO Audited Accounts 2020

THE CONFERENCE,

**Having considered** the report of the 168th Session of the Council, and

**Having examined** the 2020 FAO Audited Accounts and the External Auditor's Report, thereon

**adopts** the Audited Accounts.

### Budgetary Matters

#### Adjustments to the Programme of Work and Budget 2022-23

13. The Committee reviewed the *Adjustments to the Programme of Work and Budget 2022-23*, and appreciated they reflected the decisions and guidance of the 42nd Session of the Conference.

14. **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 transfers between Chapters on a cost neutral basis and re-allocations arising from more detailed work planning;**
- b) **recommended that the Council approve the revised distribution of the net appropriation by budgetary chapter as presented in Table 2 of CL 168/3;**
- c) **reviewed the revised budgeted post establishment (Table 3 and Annex 8 of CL 168/3) and noted that it would be reviewed by the Council;**
- d) **noted the improvements in the updated results framework (Annex 1 of CL 168/3) for the Functional Objectives and Special Chapters including the reformulation of Key Performance Indicators (KPIs) to focus on aspects which highlight the Organization's key objectives for the area and which provide a reliable means of measurement;**
- e) **noted that further budgetary transfers could arise as a result of work planning, as well as from 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; and**
- f) **noted the updated estimates of extrabudgetary resources (Table 4 of CL 168/3) and encouraged Members to provide voluntary contributions to support the priorities in the integrated Programme of Work and encouraged Management to explore alternative funding modalities to attract more flexible funding.**

### Programme and Budgetary Transfers in the 2020-21 Biennium

15. The Committee reviewed the *Programme and Budgetary Transfers in the 2020-21 Biennium*.
16. **The Committee:**
- a) took note of the forecasted budgetary performance against the 2020-21 biennial appropriation and that the final performance would be known after the closure of the 2020-21 accounts and reported in May 2022;
  - 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 1, 2, 3, 4, 5, 8, and 10 arising from the implementation of the Programme of Work and that the same transfers continue to be requested;
  - d) encouraged Management to take measures to ensure full implementation of the PWB 2020-21; and
  - e) looked forward to receiving the final 2020-21 budgetary performance report at its May 2022 session.

### Oversight

#### Progress Reports on Implementation of Recommendations of the External Auditor and the FAO Oversight Advisory Committee

17. The Committee reviewed document FC 188/6.1, *Progress Report on Implementation of the External Auditor's Recommendations* and document FC 188/6.2, *Progress Report on Implementation of Recommendations of the FAO Oversight Advisory Committee*.
18. **The Committee:**
- a) reviewed the status of implementation of the recommendations of the External Auditor and the FAO Oversight Advisory Committee;
  - b) welcomed the progress made in implementing recommendations of the External Auditor and the Oversight Advisory Committee;
  - c) encouraged Management to implement the remaining outstanding recommendations, emphasizing the importance of addressing recommendations relating to strengthening the internal control framework at both headquarters and Decentralized Offices; and
  - d) noted that the recommendations arising from the JIU Report, *Review of Whistle-blower Policies and Practices in United Nations System Organizations (JIU/REP/2018/4)* and JIU Report, *Review of the State of the Investigation Function: Progress made in the United Nations System Organizations in Strengthening the Investigation Function (JIU/REP/2020/1)* on handling allegations of misconduct against the Head of Organization were still in progress, encouraged Management to propose appropriate procedures for implementing these recommendations, coordinated with broader UN System efforts, and requested Management present these draft procedures, together with relevant views of the Committee on Constitutional and Legal Matters (CCLM) as appropriate, to the Finance Committee for consideration and further action at its 189th Session.

## Improved Methods of Work and Efficiency of the Finance Committee

### Status of Outstanding Recommendations of the Finance Committee

19. The Committee took note of the Status of Outstanding Recommendations of the Finance Committee.

20. **The Committee:**

- a) **recommended that the updated lapse factor methodology be presented to the Committee for its review prior to the preparation of the Programme of Work and Budget 2024-25; and**
- b) **looked forward to receiving an updated version of the status of outstanding recommendations at its next regular session.**

### Working Methods of the Finance Committee

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

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

- a) **emphasized the importance and benefits of holding its formal sessions in an *in-person* setting, including through the use of the hybrid approach adopted for its 188th session; and**
- b) **expressed support for the practice of holding its informal meetings in a virtual setting to leverage the flexibility and efficiency of this modality.**

## Other Matters

### Date and Place of the Hundred and Eighty-ninth Session

23. The Committee was informed that the next session was scheduled to be held from 16 to 20 May 2022. The arrangements for the session would be established in accordance with the evolving COVID-19 restrictions.

## Any Other Matters

### Update on WFP's Advance Financing Mechanisms

24. The Committee considered a verbal update on WFP's advance financing mechanisms.

25. **The Committee:**

- a) **noted the information provided by WFP Management on the urgent need to increase the ceilings for internal project lending and the Global Commodity Management Facility (GCMF); and**
- b) **expressed its readiness to consider a formal proposal to increase the relevant ceilings and looked forward to receiving a document that would be presented to a Session of the Finance Committee to be convened for this purpose.**

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**Documents for information**

- Status of Current Assessments and Arrears
- Audited Accounts - FAO Credit Union 2020
- European Commission for the Control of Foot-and-Mouth Disease Budget for 2022-23
- Animal Production and Health Commission for Asia and the Pacific (APHCA) - Statement of Accounts and Budget for 2020
- Budget of the Indian Ocean Tuna Commission for 2022 (and indicative budget for 2023)