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Food and Agriculture
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Продовольственная и
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Объединенных Наций

Organización de las
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منظمة
الأغذية والزراعة
للأمم المتحدة

COUNCIL

Hundred and Fifty-fifth Session

Rome, 5-9 December 2016

Report of the 164th Session of the Finance committee (7-11 November 2016)

Executive Summary

At its second regular session in 2016, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 164th Session, the Committee:

- **Makes specific recommendations** to the Council: (i) urging Members to make timely and full payment of assessed contributions (para 8); (ii) on the Audited Accounts for 2015 (para 11); and (iii) on its endorsement of the Director General's recommendation to appoint a new member of the Audit Committee (para 23).
- **Informs** Council of its decision: (i) approving the FAO Commissary 2015 Accounts (para 13).
- **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources and oversight matters.
- **Highlights** to Council initiatives to improve its own work.

Suggested action by 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 2015 and on the appointment of a new member of the Audit Committee;
- b) **Take note** of the decisions of the Committee on the FAO Commissary 2015 Accounts; and
- c) **Endorse** the Committee's guidance provided to the Secretariat on all other matters within its mandate, as well as initiatives to improve its own methods of work.

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Introduction

1. The Committee submitted to the Council the following report of its 164th Session.
2. In addition to the Chairperson, Mr Khalid Mehboob, the following representatives of Members were present:
 - Mr Carlos Alberto Amaral (Angola)
 - Ms Cathrine Stephenson (Australia)
 - Mr Antonio Otávio Sá Ricarte (Brazil)
 - Mr Xie Jianmin (China)
 - Mr Khaled M.S.H. Eltaweel (Egypt)
 - Mr Mateo Nsogo Nguere Micue (Equatorial Guinea)
 - Mr Heiner Thofern (Germany)
 - Mr Benito Santiago Jiménez Sauma (Mexico)
 - Mr Lupino jr. Lazaro (Philippines)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Ms Abla Malik Osman Malik (Sudan)
 - Mr Thomas M. Duffy (United States of America)
3. The Chairperson informed the Committee that:
 - Mr Xie Jianmin (China) had been designated to replace Mr Niu Dun for this session; and
 - Mr Mateo Nsogo Nguere Micue (Equatorial Guinea) had been designated to replace Mr Crisantos Obama Ondo for this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. In addition, silent observers from the following Members attended the 164th Session of the Committee:
 - Cyprus
 - Dominican Republic
 - European Union
 - France
 - Hungary
 - Netherlands
 - Republic of Malta
 - Romania
 - Slovakia
 - United Kingdom
 - United Republic of Tanzania
 - Venezuela, Bolivarian Republic of

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 164/2, the *Financial Position of the Organization* as at 30 June 2016 and cash flow forecast for 2016, including the liquidity of the Organization, the status of outstanding assessed contributions, short and long term investments, staff related liabilities, Technical

Cooperation Programme (TCP) expenditure and outstanding balances, the General Fund deficit and voluntary contributions.

7. The Committee was also provided with an updated status of current assessments and arrears of the Organization as at 31 October 2016.

8. **The Committee:**

- a) **noted** that based on Members' past payment patterns and Regular Programme cash levels, that the Organization's liquidity was expected to be sufficient to cover operational needs through the end of 2016;
- b) **recognising** that the Organization's on-going cash flow health was dependent on the timely payment of assessed contributions, **urged** all Member Nations to make timely and full payment of assessed contributions;
- c) **requested** the Secretariat to continue exploring how to encourage timely payment of assessed contributions;
- d) **noted** that the General Fund deficit was forecast to increase to USD 955.0 million as at 31 December 2016 (USD 922.2 million as at 31 December 2015), and to continue to grow, due principally to shortfalls in funding to offset charges for the After Service Medical Coverage Scheme and the Termination Payments Fund, and **noted** that this matter would be considered further by the Committee under the agenda item 5 on the Funding of After Service Medical Coverage (ASMC) Liabilities;
- e) **underlining** the importance of the TCP to member countries, including towards the achievement of the Sustainable Development Goals, **requested** the Secretariat to continue to maintain the TCP expenditure rate at a level that ensures full implementation of the TCP appropriation as approved by the Conference;
- f) **noted** the information provided on investment performance, recalling that this matter would be considered in more detail by the Committee when the Report on Investments 2016 was presented at its next regular session; and
- g) **underlined** the importance of the Working Capital Fund in providing a safety net for the Organization with respect to the impact of delays in the payment of Members' contributions and looked forward to considering proposals related to the replenishment of the reserves of the Organization in the context of the proposed Programme of Work and Budget 2018-19.

Audited Accounts - FAO 2015

9. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for 2015, including a presentation by the External Auditor of his Long Form Report on the audit of the financial operations of FAO, highlighting the principal recommendations and observations presented in the Report.

10. **The Committee:**

- a) **expressed appreciation** to the Secretariat for the presentation of the FAO Audited Accounts 2015, noting that these were the second set of Accounts for FAO prepared in accordance with International Public Sector Accounting Standards (IPSAS);
- b) **appreciated** the close collaboration and support provided by the Secretariat to the External Auditor during the performance of the audit of the financial statements;
- c) **welcomed** the issuance of the External Auditor's unmodified opinion;
- d) **expressed appreciation** to the External Auditor for the presentation of the Long Form Report;
- e) **commended** the External Auditor for the quality of the Long Form Report and the recommendations contained therein;

- f) **noting that the Long Form Report of the External Auditor continued to identify a significant number of observations relating to internal control issues, emphasized the importance of strengthening the internal control framework at Headquarters and Decentralized Offices and monitoring its effective implementation and compliance; and**
- g) **looked forward to the submission of a Statement of Internal Control to be attached to the FAO Audited Accounts for 2017.**

11. The Committee, noting the comments and clarifications provided by the External Auditor and the Secretariat, recommended that the Council submit the Audited Accounts for 2015 to the Conference for adoption. The Committee accordingly agreed to submit to the Council the draft resolution below for forwarding to the Conference:

DRAFT CONFERENCE RESOLUTION

FAO Audited Accounts 2015

THE CONFERENCE,

Having considered the report of the 155th Session of the Council, and

Having examined the 2015 FAO Audited Accounts and the External Auditor's Report thereon

Adopts the 2015 Audited Accounts

Audited Accounts - FAO Commissary 2015

12. The Committee reviewed document FC 164/4, *Audited Accounts – FAO Commissary 2015* and the financial performance of the Commissary for the period.

13. **The Committee:**

- a) **noted and welcomed the improved performance by the Commissary during 2015 compared to 2014;**
- b) **welcomed the issuance of the External Auditor's unmodified opinion; and**
- c) **approved the 2015 Audited Accounts of the FAO Commissary.**

Funding of After Service Medical Coverage (ASMC) Liabilities

14. The Committee considered document FC 164/5 which presented an update on the latest UN system discussions on the funding gap for After Service Medical Coverage (ASMC) liabilities and on efforts being made by the Secretariat to contain the costs of the scheme.

15. **The Committee:**

- a) **recalled that this matter had been regularly reviewed and discussed by the Committee during its previous sessions;**
- b) **noted the update provided on the decisions taken by the United Nations General Assembly following its consideration of the Report of the After Service Health Insurance (ASHI) Working Group of the Finance and Budget Network;**
- c) **encouraged the Secretariat to further review the options to address the funding gap in the context of the considerations on this matter by the United Nations General Assembly, emphasizing the importance of adopting a common approach amongst the members of the United Nations Common System;**

- d) **appreciated** the active role of the FAO Secretariat in the consideration of the issue within the Working Group of the Finance and Budget Network; and
- e) **urged** the Secretariat to continue its efforts to contain costs of the current medical insurance plan.

Budgetary Matters

Annual Report on Support Costs Expenditure and Recoveries

16. The Committee reviewed the *Annual Report on Support Costs Expenditures and Recoveries* covering the period from 1 June 2015 to 31 May 2016.

17. **The Committee:**

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

Human Resources

Human Resources Management

18. The Committee examined document FC 164/7, *Human Resources Management*, which outlined the major achievements made on human resources management in the Organization.

19. **The Committee:**

- a) **commended** the Secretariat on the achievements made in human resources management, including in the areas of recruitment and development of employees, improved gender representation, and increased efficiency in HR processes and procedures;
- b) **appreciated** the information provided in the document and welcomed the significant improvement reported on the status of professional vacancies and the resulting vacancy rate;
- c) **stressed** the importance of reducing the vacancy rate in regional offices with high percentages of vacant posts to a level that permits the implementation of its programmes;
- d) **requested** the Secretariat to adopt a standardized format when presenting information, covering comprehensively both staff and non-staff human resources;
- e) **requested** the Secretariat to streamline the process for responding to requests by Members for the provision of non-sensitive information on staffing; and
- f) **encouraged** the Secretariat in its efforts to address the challenges ahead identified in the document, in particular by: (i) improving recruitment procedures; (ii) ensuring equitable geographical representation; (iii) the more efficient use of non-staff human resources; (iv) further improving the efficiency of communication between management and staff representative bodies; and (v) supporting the ability of staff to absorb changes and improvements in Human Resources Management.

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)

20. The Committee reviewed document FC 164/8, *Recommendations and Decisions of the International Civil Service Commission and the United Nations Joint Staff Pension Board to the General Assembly (including Changes in the Salary Scales and Allowances)*.

21. **The Committee:**

- a) **took note of the progress on implementation of the changes to the compensation package for the professional and higher categories and the main decisions by the UN Joint Staff Pension Board;**
- b) **encouraged the Secretariat to consider the expeditious implementation of the new mandatory age of separation, taking into account the ongoing discussions with other UN system Organizations, for staff recruited prior to 1 January 2014 and looked forward to updates on this matter, including the budgetary implications of the change.**

Oversight

FAO Audit Committee Membership

22. The Committee reviewed document FC 164/9, *FAO Audit Committee Membership*, in which the Director-General recommended that Ms Daniela Graziani be appointed as a new member of the FAO Audit Committee.

23. **The Committee:**

- a) **noted the confirmation provided by the Secretariat that Ms Graziani's qualification of "Dottore Commercialista ed Esperto Contabile" was functionally comparable to the English language terminology of "Chartered Accountant" detailed in the summary curriculum vitae;**
- b) **endorsed the Director-General's recommendation to appoint Ms Daniela Graziani as a member of the FAO Audit Committee for an initial period of three years, and that this be renewable thereafter up to a maximum of six years in total;**
- c) **agreed to submit to the Council its endorsement of the appointment, to be effective from the date of approval by the Council; and**
- d) **requested that the process for future appointments of Audit Committee members be reviewed, considering practices adopted in other agencies within the United Nations System.**

Terms of Reference of the FAO Audit Committee

24. The Committee reviewed document FC 164/10, *Terms of Reference of the FAO Audit Committee*, in which the Director-General submitted a proposed update to the FAO Audit Committee's Terms of Reference.

25. **The Committee:**

- a) **noted that the proposed revision entrusted the Audit Committee with the mandate previously held by the Ethics Committee consistent with the recommendation of the CCLM, the Finance Committee and the Council;**
- b) **further noted that the proposed revision conferred on the Audit Committee the role of coordinating the work of the different oversight functions, OIG, Evaluation,**

- External Auditor and Ethics and established the Audit Committee's consultative role in the selection and dismissal of the Inspector General;
- c) **requested** that the proposed update of the Terms of Reference of the FAO Audit Committee be further revised to clarify the Audit Committee's role in facilitating the coordination of the work of the different oversight functions while safeguarding the independence of the External Auditor; and
 - d) **recommended** that the Secretariat review the Terms of Reference of the FAO Audit Committee to align them with best practices of other UN Organizations and present the revised draft version for the Finance Committee's review.

Progress Report on Implementation of the External Auditor's Recommendations

26. The Committee reviewed document FC 164/11, *Progress Report on Implementation of the External Auditor's Recommendations*.

27. **The Committee:**

- a) **noted** the status of implementation of the recommendations of the External Auditor;
- b) **welcomed** the management comments on the recommendations in the 2015 Long Form Report in line with the request of the Committee at its 160th Session that the management response to recommendations contained in the Report of the External Auditor be provided at the same session at which the Report is submitted to the Committee;
- c) **commended** the Secretariat on the significant progress made in closing recommendations of the External Auditor and urged the Secretariat to continue efforts to close the remaining outstanding recommendations; and
- d) **requested** the External Auditor to include in their comments in future progress reports, a confirmation that they consider the recommendations to have been addressed by management.

Improved Methods of Work and Efficiency of the Finance Committee

Working Methods of the Finance Committee

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

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

- a) **recalled** the importance of ensuring that all documents be received by members, in all languages and with uniformity of quality, at least two weeks prior to each session and preferably as early as possible, to allow due consideration and preparation by Members, and **urged** the Secretariat to take measures to address this issue; and
- b) **requested** the Secretariat to review options for reducing the volume of printed documentation prepared for each session, leveraging the opportunities provided in this regard by developments in information technology.

Other Matters

Date and Place of the Hundred and Sixty-fifth Session

30. The Committee was informed that the 165th Session was scheduled to be held in Rome from 27 to 31 March 2017.

Any Other Matters

31. **The Committee highlighted the challenges presented to Members of the Committee by the close scheduling of meetings of the Rome-based Agencies, and requested the Secretariat to consider this when preparing the calendar of sessions of Governing Bodies.**

Documents for information

- Status of Current Assessments and Arrears (doc. FC 164/INF/2)
- Audited Accounts - FAO Credit Union 2015 (doc. FC 164/INF/3)
- Joint Inspection Unit Reports:
 - Contract Management and Administration in the United Nations System (JIU/REP/2014/9) (doc. FC 164/INF/4)