



منظمة الأغذية
والزراعة
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联合国
粮食及
农业组织

Food
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Agriculture
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of
the
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Organisation
des
Nations
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pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Thirty-first session

Rome, 20 – 25 November 2006

Report of the 113th Session of the Finance Committee
Rome, 8 – 12 May 2006

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Matters requiring attention by the Council

Report of the Hundred and thirteenth Session of the Finance Committee

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REPORT OF THE HUNDRED AND THIRTEENTH SESSION OF THE FINANCE
COMMITTEE, ROME, 8 – 12 MAY 2006

Introduction

1. The Committee submitted to the Council the following report of its Hundred and thirteenth Session.

2. The following representatives were present:

Chairperson: Mr Aamir Khawaja (Pakistan)

Vice-Chairperson: Mr Augusto Zodda (Italy)

Members: Mr Aboubakar Bakayoko (Côte d'Ivoire)

Mr Søren Skafte (Denmark)

Mr Eckhard W. Hein (Germany)

Mr Seiichi Yokoi (Japan)

Ms Ana María Baiardi Quesnel (Paraguay)

Mr Roberto Seminario (Peru)

Mr Ahmed I. Al-Abdulla (Qatar)

Mr Willem H. Brakel (United States of America)

Ms Verenica Mutiro Takaendesa (Zimbabwe)

3. The Committee noted that Mr Brakel had been designated to replace Mr Cleverley as the representative of the United States of America at this 113th Session of the Finance Committee.

Financial and Budget Reports

ANNUAL REPORT ON BUDGETARY PERFORMANCE AND PROGRAMME AND BUDGETARY TRANSFERS IN THE 2004-05 BIENNIUM¹

4. In accordance with Financial Regulation 4.6(b), the Committee reviewed the Director-General's *Annual Report on Budgetary Performance and Programme and Budgetary Transfers*, based on the 2004-05 unaudited accounts (Annex I).

5. The Committee noted that the 2004-05 spending represented 99.9% of the US\$749.1 million appropriation and resulted in a surplus balance of US\$0.9 million. The Committee noted that the performance was in line with projections previously reported to the Finance Committee, including actual staff costs which exceeded budgeted costs by US\$16 million for the biennium.

6. Several Committee members expressed concern over the unfavourable staff cost variance and over the Organization's significant liability related to after-service medical benefits, and looked forward to discussing these aspects further under separate agenda items.

7. In accordance with Financial Regulation 4.5(b), which required transfers from one chapter to another to be approved by the Finance Committee, the Committee noted that transfers between budgetary Chapters were required for the biennium from Chapters 1, 2 and 5 to Chapter 3

¹ FC 110/2

(US\$1.5 million) and Chapter 6 (US\$1.3 million), and that these transfers were within the amounts approved by the Finance Committee at its September 2005 session.

8. The Finance Committee recalled that it had authorized the use of arrears for unbudgeted redeployment and separation costs (US\$4.1 million) and security expenditure (US\$2.8 million) on the understanding that every effort would be made to absorb these costs within the Regular Programme budget. The Committee appreciated that this had been successfully achieved, and that therefore no transfer from arrears for these costs was required.

9. As authorized by the Finance Committee at its session in September 2005, the final unused arrears balance under Resolution 6/2001 of US\$10.1 million was transferred to the Capital Expenditure Facility. The Committee noted that the proposed use of these resources under Chapter 8, *Capital Expenditure*, was further detailed in the Revised Programme of Work and Budget 2006-07.

10. The Committee congratulated the Secretariat on its sound management of the 2004-05 Regular Programme performance, and endorsed the report for transmission to the Council.

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

11. The Committee reviewed the paper on *Financial Highlights and Status of Current Assessments and Arrears* which showed the unaudited results of operations for the 2004-05 biennium and the financial status of the Organization as it moved into the 2006-07 biennium. The Committee also reviewed a working paper on the status of assessed contributions at 30 April 2006 and noted several key messages to be drawn from the papers.

12. The General Fund deficit for the 2004-05 biennium had reached a level of US\$124.8 million, in line with the forecasts which the Secretariat had provided to the Committee in 2004 and 2005. This represented an increased deficit of US\$34.7 million compared to the previous biennium end. The following salient points were noted by the Committee:

- a) The 2004-05 biennium saw a net increase of US\$72 million of unpaid contributions (both current assessments and arrears) due to the very low collection rate in 2005 when only 75% of current assessments had been received. Whilst there had been a good improvement in the collection of arrears during the first months of 2006 which had significantly reduced the overall balance of unpaid contributions, the status of contributions as at 30 April 2006 showed a slight decrease in the rate of collections of current assessments compared to the previous year;
- b) The balance of contributions in arrears for 2005 and prior years stood at US\$63 million and €7.9 million at 30 April 2006. The persistently high level of arrears of contributions from member nations continued to be the most significant factor undermining the financial health of the Organization;
- c) Regarding the arrears allocation for one-time expenditure in accordance with Conference Resolution 6/2001, US\$31.2 million had been expensed in the 2004-05 biennium. The unspent balance of US\$10.1 million at 31 December 2005 had been transferred to the Capital Expenditure Account which was established by Conference Resolution 10/2003 as Chapter 8 of the 2006-07 Programme of Work and Budget;
- d) Improved TCP delivery was reflected in the high level of TCP expenditure for the 2004-05 biennium, which amounted to US\$125 million. This represented the highest level of expenditure in the last five biennia;
- e) The long-term investment portfolio income, which was entirely earmarked towards funding of staff-related liabilities, performed very well earning US\$36.6 million for the biennium, compared to US\$10.1 million earned in the 2002-03 biennium. This performance allowed for the full recognition in the official accounts of the Separation Payments liability.

13. With regard to the other components of the Organization's reserves, the Committee noted with concern that the Working Capital Fund (WCF) balance of US\$25 million had to be advanced to the General Fund in August 2005 and was reimbursed in full in February 2006. Similarly, the Special Reserve Account (SRA) balance of US\$10.3 million was advanced to the General Fund in August 2005 and was reimbursed in full in February 2006.

14. The Committee noted that for the last five months of 2005, the Organization's cash shortage was severe. It had to borrow continuously from August through 31 December to cover shortages due to delays in the receipt of member assessments, mainly from the two major contributors. Total external borrowings had reached US\$71 million at 31 December 2005 which were subsequently fully repaid by February 2006 on receipt of major contributions. The Committee was informed that the total borrowing costs for the 2004-05 biennium amounted to US\$333 534.

15. Looking forward, the Committee was informed that the General Fund liquidity would continue to be under pressure from the impact of delays in receipt of contributions and the persistently high level of arrears. The Secretariat estimated that if the pattern of receipts for 2005 was repeated, the Organization would need to resort to the use of external borrowing from August 2006 to December 2006 with borrowing requirements at 31 December 2006 expected to exceed US\$55 million.

16. Funding of staff-related liabilities had improved in the 2004-05 biennium due to the following factors:

- a) The long-term investment portfolio had performed very well, earning US\$36.6 million for the 2004-05 biennium; and,
- b) The After Service Medical Coverage (ASMC) liability amortization component had been partially funded for the first time by an amount of US\$7 million per year from additional Member Nation assessments, as approved by the Conference in 2003. Looking forward however, the Committee noted that the 2006-07 assessment for ASMC amortization of US\$14.1 million was insufficient to offset the actual ASMC amortization charges which would amount to US\$46.5 million for the 2006-07 biennium, adding a further US\$32.4 million to the General and Related Funds deficit (The Committee would review ASMC further under a specific agenda item).

17. The Committee expressed serious concern in respect of the liquidity shortage and the increasing deficit as these factors cast doubt on the Organization's capacity to carry out its mandate. Within the broader context of budget levels, the Committee resolved to continue to explore possible alternative measures that could be introduced to help improve the liquidity position for discussion at its September 2006 Session.

REPORT ON INVESTMENTS 2005

18. The Committee took note of the information provided in the document and, in particular, the Secretariat's intention to subscribe to an electronic market information service to support Finance Division's investment and currency management, with subscription cost to be met from investment income.

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

19. The Committee took note of the information provided in the above-referenced document (FC 113/5).

SECRETARIAT RESPONSE TO EXTERNAL AUDIT REPORT ON CONTRACTS FOR LOCAL SERVICES

20. The Committee had before it document FC 113/6, *Secretariat Response to External Auditor Report on Contracts for Local Services*, which the Secretariat had prepared following a request made by the Committee at its 110th Session.

21. In introducing the paper, the Secretariat explained that its response was mainly meant for information as it agreed in general with the recommendations in the External Audit Report. The Committee appreciated the clarifications provided by the External Auditor and the Secretariat and took note of the assurance provided by the Secretariat that the recommendations would be implemented. The Committee looked forward to receiving information on their implementation as part of the status report it received regularly. One member of the Committee referred during the discussion of the item to document FC 113/5, *Progress Report of Implementation of the External Auditor's Recommendations*.

2005 ANNUAL ACTIVITY REPORT OF THE OFFICE OF THE INSPECTOR- GENERAL

22. The Committee discussed the report and obtained clarifications from the Inspector General where needed. The issues discussed were:

- Implementation of internal audit recommendations: the Committee was briefed as to steps taken to improve the rate of implementation of internal audit recommendations.
- Improvements to annual report: the Committee requested that the annual report include indications as to whether individual recommendations were significant to operations.
- Access to internal audit reports: the Committee requested a paper for its September 2006 session on potential future availability of internal audit reports to member nations, including reference to previous discussions on the subject.
- Staffing of the Office of the Inspector General: the Committee noted vacancies and delays in filling posts in the Office, and the cuts in staffing that had been made due to the budget cuts, and expressed concern as to whether the audit staff resources would be adequate to cover the increased workload resulting from decentralization. The Committee noted that the Office of the Inspector General would nevertheless cover the highest risk areas, and would bring the issue to the attention of the Director-General, should resource availability result in inadequate risk coverage.
- 2005 World Summit Outcome Document and IIC report on the Oil for Food Programme: the Committee noted that the Office of the Inspector General, in liaison with the Audit Committee and the Secretariat, was taking steps to implement certain improvements suggested in these documents.
- Working of the Office of the Inspector General: the Committee noted that while the Office was structured in three audit groups, the lines were not rigid, and work was allocated according to priorities and risk. Emerging issues, such as the locust emergency, were assessed for audit risk and resources shifted to cover high risk areas. Special audits of projects requested and funded by donors were carried out on an exceptional basis in 2005.

REPORTS OF THE UNITED NATIONS JOINT INSPECTION UNIT – SOME MEASURES TO IMPROVE OVERALL PERFORMANCE OF THE UN SYSTEM AT THE COUNTRY LEVEL – PART I: A SHORT HISTORY OF UNITED NATIONS REFORM IN DEVELOPMENT AND PART II (JIU/REP/2005/2)

23. In reviewing the report, the Committee considered the recommendations therein to be useful when examining ways to improve cost effectiveness of the Organization at the country level. The Committee further noted the recommendations on staff mobility and requested the Secretariat to submit a report on the status of FAO's policy on this subject to its next session as

part of overall reporting on human resources issues. It also acknowledged the fact that a report on the implementation of the UN General Assembly Resolution 59/250 on the Triennial Comprehensive Policy Review of operational activities for development of the UN System (TCPR) would be submitted to the next session of the FAO Conference.

POLICIES OF UN SYSTEM ORGANIZATIONS TOWARDS THE USE OF OPEN SOURCE SOFTWARE (OSS) IN THE SECRETARIATS (JIU/REP/2005/3)

24. The Secretariat supported the comments made by the CEB on the JIU report and expressed the need for a more thorough analysis. It was informed of the UN Information and Communications Technology (ICT) Network initiatives for the development of Information Technology (IT) governance and best practice guidelines, including recommendations on the development of information systems projects business cases, which would include the criteria for use or non-use of open source software and proposed to report back on the progress to the Committee.

25. The Committee took note on the information provided in the documents, agreed with the comments provided by the Secretariat and welcomed the proposal to receive an update.

A COMMON PAYROLL FOR UN SYSTEM ORGANIZATION (JIU/REP/2005/4)

26. The Secretariat reiterated the need for a further analysis which would take into full account the complexity of Enterprise Resource Planning (ERP) systems and also the considerable efforts already made by most organizations in introducing modern ERP systems. The Secretariat informed of the detailed study on the common payroll currently being conducted by the UN ICT Network.

27. In response to the inquiry made on the FAO payroll system, the Secretariat explained that FAO was actively pursuing inter-agency level collaboration to avoid duplication of work, highlighting the collaboration made with ILO in the ERP Payroll implementation which reduced the costs for system development.

28. The Committee took note of the Secretariat observation on the lack of in-depth cost benefit analysis in the JIU Report. It stressed the importance of and encouraged efforts towards more harmonious common systems and welcomed the Secretariat's proposal for future reporting on the progress update.

Financial Policy Matters

ACTUARIAL VALUATION OF THE STAFF-RELATED LIABILITIES

29. The Committee recalled that the After-Service Medical Coverage (ASMC) funding of US\$14.1 million for the 2006-07 biennium had been left at the same level as the 2004-05 biennium pending issuance of the United Nations (UN) report on after-service health insurance liability (ASHI). The Committee wished to consider the proposals of the UN on how to approach this UN system-wide liability, with a view to further addressing FAO's ASMC funding issue.

30. The Committee expressed concern that, based on the actuarial valuation of the staff-related schemes as at 31 December 2005, the total of staff-related liabilities had reached a level of US\$653.8 million compared to US\$432.8 million of the previous actuarial valuation at 31 December 2003, with the entire increase being attributable to the ASMC. The ASMC liability had increased from US\$313.8 million to US\$533.4 million from 2003 to 2005, which represented a 70% increase for FAO, compared to a 97% increase experienced by World Food Programme (WFP) and 86% by the International Fund for Agricultural Development (IFAD) in the same period.

31. FAO's ASMC amortization for the 2006-07 biennium, i.e. the biennial charge required to adhere to the original 30 year amortization period which began in 1998, amounted to US\$46.5 million compared to US\$30 million of the 2003 valuation. The annual current service cost for all staff-related schemes for 2006-07 amounted to US\$23.4 million compared to US\$14.8 million for 2004-05.
32. The Committee was informed that financial, demographic and other assumptions were updated to reflect the period covered by the 2005 valuation and that the main changes from the previous 2003 valuation assumptions included:
- a) an increase in medical cost inflation from a fixed 4.5% to 6.5% in 2006, declining linearly to 4.5% over 10 years;
 - b) a decrease of the discount rate from 5.5% to 4.5%;
 - c) update of US dollar/euro exchange rates of the 2004-05 biennium (rates were based on a four year average rate);
 - d) updated mortality rate table in line with valuations of the United Nations Joint Staff Pension Fund (UNJSPF);
 - e) use of market value of investments (rather than cost) for funding calculations.
33. The different entitlement elements of the Termination Payments Fund were reviewed by the Committee and it was noted that the high level of actual disbursements in the biennium compared to amortization amounts was attributed to the mix of actual entitlements, including accrued leave and separation payments.
34. The Committee considered the UN paper on after-service health insurance liability and noted that the estimated actuarial present value of the ASHI liabilities as at 31 December 2003 for the UN and the whole UN common system were US\$1.5 billion and US\$4 billion respectively. Action taken by each UN organization with respect to accounting and funding of these liabilities varied considerably and the Committee welcomed the fact that FAO was among the seven organizations that had taken steps to both recognize and fund the actuarial liability from several sources.
35. The decisions of the General Assembly on the recommendations of the UN ASHI report were pending and when made, were expected to provide valuable insight as to the approach and treatment of both accounting and funding of ASHI liabilities at the UN common system level, factors which should help guide member nations of all agencies and programmes towards a more consistent approach in addressing ASMC within the UN system.
36. The Committee requested details on the actuarial assumptions to better understand the basis on which the actuaries arrived at the estimated liabilities and the impact of the liabilities on the financial condition of the Organization. The Committee also requested a comparative analysis of the FAO medical scheme and those of other UN agencies. The Committee also requested information about national health systems available at a sample of locations from different regions.
37. The Committee agreed that at its May 2007 session it would determine its recommendation to Council for ASMC funding in 2008-09, and requested the Secretariat to prepare a progress report for the next session of the Finance Committee in September to be followed by a document in the May 2007 session.

TREATMENT OF THE STAFF COST VARIANCE

38. The Committee expressed concern over the magnitude of the unfavourable staff cost variance in the 2004-2005 biennium, while at the same time acknowledging the difficulties in accurately forecasting staff costs. It noted that the main underlying causes of the difference between projected standard costs and actual costs incurred for staff were unpredictable and/or beyond the Organization's control, due to the long time lag between budget preparation and full implementation, unanticipated fluctuations in expenditure items and exchange rate fluctuations for

currencies not covered by split assessments, as well as decisions of the International Civil Service Commission (ICSC).

39. The Committee noted that there was no major difference in the methodology used by various UN system organizations in projecting staff costs, while an important difference was evident between FAO and the UN in the funding mechanisms available to handle staff cost variances during budget implementation.

40. The Committee noted that the UN was considering a proposal to establish a reserve fund within the appropriations to cover variations in staff costs due to cost increase factors.

41. While noting that the Committee was not required to take any decision, some Members expressed preliminary reactions on the appropriateness of establishing a reserve fund for the purpose in FAO. The Committee requested the Secretariat to report back on the matter after a decision was taken at the UN.

MEASURES TO IMPROVE THE ORGANIZATION'S CASH SHORTAGE SITUATION

42. The Committee, concerned with the Organization's worsening cash flow situation, which forced the Organization to resort to external borrowing, reviewed document FC 113/11 which described alternative measures that could be introduced to improve the Organization's cash shortage situation, including measures already in place to encourage timely payment of contributions, incentives, sanctions, measures proposed in the past but not adopted and recent UN system experience in contributions. The document updated all information reviewed by the Committee in its 2005 sessions and introduced new features for consideration. The Committee also reviewed the results of the survey of member nations which had been carried out by the Secretariat at the request of the Committee to identify those issues that influenced the timing of payments or the reasons for non-payment of assessed contributions. The Committee noted the low response to the survey and requested the Secretariat to continue gathering responses.

43. The Committee discussed at length a series of proposals made by one Committee member, including proposals to encourage payment of arrears, proposals regarding the involvement of the Governing Bodies in external borrowing by the Secretariat and proposals on voluntary contributions by member nations in arrears.

44. Recognizing the need for further consideration of the range of matters discussed, the Committee resolved to return to the subject at its September 2006 Session, with particular attention to the causes of cash shortages, *inter alia*, delays in payments, arrears and expenditure patterns. The Committee requested that the Secretariat prepare a comprehensive paper including further results of the survey and details of all of the proposals discussed to date for review by the Committee at the September 2006 session.

FLEXIBLE USE OF THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES

45. The Committee was informed on the procedures for advances from the Special Fund for Emergency and Rehabilitation Activities (SFERA) which had been developed through collaboration between TC and AF Departments. The Committee appreciated the purpose of the proposal, i.e. to be able to respond more effectively to rapidly developing crises, as well as the proposed refinement of the procedures for advances from SFERA regarding the treatment of advances made on the strength of a firm but conditional commitment. The Committee noted the procedures followed Financial Rules and ensured risk would be kept to a minimum and appreciated the added flexibility. The Committee looked forward to the annual SFERA activity report to be presented to the September session.

HLCM RECOMMENDATIONS ON ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS IN THE UN SYSTEM

46. The Committee noted that the UN's High Level Committee on Management (HLCM) had unanimously approved United Nations system-wide adoption of International Public Sector Accounting Standards (IPSAS) by 1 January 2010, but that the General Assembly had not yet decided on IPSAS adoption.
47. The Committee noted that IPSAS were an independent set of accounting standards, strongly supported by the UN's Panel of External Auditors, that represented best practice for governments and not-for-profit organizations. The standards would bring significant benefits as regards the quality, comparability and credibility of United Nations system financial reporting, with consequential improvements anticipated with respect to accountability, transparency and governance. After 2009, certification of financial statements by UN system External Auditors would be based on compliance with IPSAS.
48. The Committee was informed of the high level implications for the Organization to achieve IPSAS implementation by 1 January 2010. It noted the significant impact that IPSAS adoption would have on the accounting, financial reporting and associated Information Technology (IT) systems of the Organization and the consequential impacts on budgeting. It further noted that some changes would be required to the Financial Rules and Regulations of the Organization and that IPSAS adoption by FAO would require a recommendation from the Finance Committee to Council and approval by Conference.
49. The Committee noted that the Director-General had given his approval to the proposed adoption of IPSAS subject to (a) the identification of the costs of the adoption and (b) the approval of the proposal by the Governing Bodies together with the financing of the expenses. A UN Task Force on Accounting Standards, with representation from all agencies and programmes, would issue guidance for adoption, while each UN entity was required to carry out its own implementation project. The Committee noted that FAO and WFP were collaborating on IPSAS adoption, and that in accordance with the UN timetable the Organization had drawn up a four year high level project plan for IPSAS implementation with estimated costs of the project activities in the current biennium amounting to US\$410 000. The Committee would be provided at its September 2006 session with an updated project plan and cost estimates for the 2008-09 biennium. The Committee was requested to approve a source of funding for IPSAS project costs, which Finance Division had indicated could be covered by the unallocated funds in the Capital Expenditure Facility.
50. The Committee recognized the importance of IPSAS adoption within the UN system and for the Organization and expressed its agreement in principle with adoption of the new standards, subject to decisions on the matter by the General Assembly. The Committee recognized the scale of the project in FAO and that the Organization should proceed on a priority basis with preparations for the IPSAS project while awaiting formal approval decisions, using the Capital Expenditure Facility as a funding source for the IPSAS project. The Finance Committee would consider formal approval of IPSAS adoption in September 2006 when the Secretariat would present a document with an updated project plan, with a detailed analysis of forecast costs in the 2006-2007 and 2008-2009 biennium and with a report on the decisions of the General Assembly concerning IPSAS.

Budgetary Matters

REVISED PROGRAMME OF WORK AND BUDGET 2006-2007²

51. The Finance Committee considered the Revised Programme of Work and Budget 2006-07. It expressed appreciation for the documentation, including the on-line annexes and the additional information supplied on the first day of the session. The Committee complimented the Secretariat's continuing efforts to improve the readability of PWB documents. Nevertheless, a few members commented on the difficulty of tracking the financial implications of changes in allocations for specific programmes and/or voiced concern about the perceived lack of clarity regarding one-time and recurrent costs associated with the implementation of agreed decentralization reforms. The Committee appreciated subsequent efforts by the Secretariat to provide clarification of these points.

52. Recalling successive budget reductions, the Committee noted that the approved budget level for 2006-07 of US\$765.7 million entailed a further real budget reduction of US\$39 million (5.2 per cent in real terms) - with TCP and security expenditure set at levels established by the Conference - which required the Organization to make difficult choices on priority setting and resource allocations.

53. The Committee welcomed the efforts to maximise efficiency savings and productivity gains put forward in the document, as well as the additional measures to reduce costs and took note of the substantial reductions since 1994 in the overall staffing of the Finance Division (32%), Human Resources Management Division (55%) and Administrative Services Division (49%). Some Members encouraged the Secretariat to be more ambitious in its efficiency targets, while others believed the targets set by the Secretariat were sufficiently ambitious and realistic. The Committee urged the Secretariat to continue to analyze all areas of potential savings, including possible collaboration with other Rome-based agencies or other UN offices in decentralized locations.

54. The Committee recalled that adequate external cost recovery for services rendered was an integral element of the efficiency saving measures prescribed by the Council and noted the Secretariat's ongoing review of the cost recovery rate for projects in support of Regular Programme normative work which was currently 6 per cent. It looked forward to receiving a proposal for adjustment for its review, and the endorsement of the Council.

55. The Committee also acknowledged that the Secretariat would need to consider proposals for the consolidation of the Regional Office Management Support Units into the Shared Services Centre in the context of recommendations made by the Independent Evaluation of Decentralization, and of the Secretariat's assessment of the best course of action. It noted that full implementation of the Shared Services Centre could only take place after the implementation of the HRMS and looked forward to receiving further details at its next session.

56. The Committee took note of the 122 net overall post reductions, including 17 at Director-level and above, and the changes to the organizational structure at headquarters and in decentralized locations, as approved by the Conference and summarized in Annex III of the document. A more detailed organigramme at Service level was provided to the Committees.

57. As part of its review of the programme proposals within the Committee's mandate (Chapters 1,5,8 and 9), the Finance Committee stressed the importance of appropriate internal control within the Organization. The Committee took particular note of the potential adverse impact of the budgetary provision under Programme 5C (Financial Services) on internal financial controls, which could compromise the Organization's capacity to produce accurate, timely and complete accounts. The assurance from the Secretariat was welcomed, to the effect it would cope

² FC 113/14

with possible risks in this area by adequate prioritization of its work and that the Finance Committee would continue to monitor the internal control aspects through reports of the Inspector-General and External Auditor, where unacceptable risks would be noted.

58. The Committee was informed that the Director-General was seeking extra-budgetary contributions to cover part of one-time and transition costs, estimated at US\$15 million, of which half was for staff relocation and staff separation costs. It noted efforts to reduce the one-time costs payable by the Organization, for example in negotiations with potential host governments, and looked forward to an update being provided at its next session. The Secretariat recalled that one-time payments for separation and redeployment had been a recurring feature of biennial budget management, and that staff cuts were primarily a feature of the approved budget level, including one-time costs to implement streamlining measures approved by the Conference.

59. In response to a question on the relationship between the budgetary figures in Section III and those in Section IV, especially as regards the provision for Programme Management, the Secretariat clarified that the tables in Section IV did not include indirect allocations, which were defined as staff development resources and internal transfers for TCP Direct Operating Expenditures.

60. Upon seeking Legal Counsel's opinion on the preparation of the Medium Term Plan 2008-13, the Committee was reminded that the Medium Term Plan was not part of the Basic Texts, but rather was introduced through a Conference Resolution in 1989 (CR 10/89). The Committee was reminded of the precedent set in the past by the non-issuance of the MTP 2000-2005 based on the recommendation of the Programme Committee to the Council. The Committee's consensus was that, in the light of the changing environment as a result of the IEE and the further reform proposals to be put forward by the Director-General, and given the legal precedent, it would be appropriate to recommend to the Council the deferment of the preparation of the Medium Term Plan.

61. The Committee noted the "Advance indications of further changes to be proposed by the Director-General" (paragraphs 48-59 of the Revised PWB), and thanked the Director-General for sharing these with the Committees. The Committee recognized that substantive discussions on further changes were not possible until after the Committee received a specific and complete proposal from the Director-General.

62. Following the deliberations of the Joint Meeting of the Programme and Finance Committees, the latter approved the transfers between budgetary chapters necessary to arrive at the budget proposal approved by the Joint Meeting as follows:

(All amounts in US\$ 000)				
Chapter		Conference Resolution	Revised Budget	Transfers Sought
1	Corporate Governance	17,489	18,109	620
2	Sustainable Food and Agricultural Systems	203,926	209,583	5,657
3	Knowledge Exchange, Policy and Advocacy	189,929	189,137	-792
4	Decentralization, UN Cooperation and Programme Delivery	213,114	212,679	-435
5	Management and Supervision Services	115,474	110,425	-5,049
6	Contingencies	600	600	0
8	Capital Expenditure	4,724	4,724	0
9	Security Expenditure	20,444	20,444	0
Total Appropriation (Net)		765,700	765,700	0

Human Resources Matters

STATISTICS ON HUMAN RESOURCES

63. The Committee took note of the information provided in the document FC 113/15 on *Statistics on Human Resources*.

DECISIONS OF THE GENERAL ASSEMBLY ON INTERNATIONAL CIVIL SERVICE COMMISSION AND UN JOINT STAFF PENSION BOARD (INCLUDING CHANGES IN SALARY SCALES AND ALLOWANCES)

64. The Committee took note of the information provided in the document FC 113/16 on the *Decisions of the General Assembly on International Civil Service Commission and UN Joint Staff Pension Board (including Changes in Salary Scales and Allowances)*.

REVIEW OF THE STAFF MEDICAL INSURANCE PLANS

65. The Committee considered the document on the *Review of the Staff Medical Insurance Plans* (FC 113/17) and the subsequent presentation by the Secretariat on the subject.

66. The Committee was briefed on the preliminary results of the FAO-commissioned study conducted by Hewitt Associates, the consulting actuaries, on the staff medical insurance plans, including an analysis of the major sources of claims' costs for the various categories/groups of participants. This report would also include the issue of self-financing.

67. The Committee was informed of an organizational strategy for cost containment of the medical insurance plans and was presented with a brief on a number of initiatives put in place under this strategy, including review of the plan structure and the new in-house competitively-priced medical services, as well as prevention programmes. In response to questions from Committee members on the effect of these measures on the actual insurance plan costs, the

Committee was provided with statistics on the actual claim costs during the first quarters of 2004, 2005 and 2006. The data provided showed a reduction in claim costs for the first quarter of 2006 of approximately 12% over the same period of the previous years.

68. The Committee was advised that the contract for the medical insurance plan had been tendered internationally and that a Technical Evaluation Panel (TEP), comprising representatives from FAO and WFP management and staff, was nearing the completion of its work.

69. The Committee was informed that the major study being conducted by Joint Inspection Unit (JIU) of the United Nations, in which FAO was included, was still to be finalized and that the Committee would be briefed on its findings upon its conclusion.

70. The Committee expressed its appreciation for the lead role taken by FAO in tendering and managing a joint staff medical insurance plan for all Rome-based UN Agencies. The Committee underlined the importance of being informed on studies undertaken by the Secretariat and the JIU regarding FAO and the UN system-wide medical insurance plans, respectively.

Organizational Matters

PROGRESS REPORT ON ADMINISTRATIVE INFORMATION SYSTEMS

71. The Committee took note of the information provided in document FC 113/18, *Progress Report on Administrative Information Systems*.

Other Matters

DATE AND PLACE OF THE HUNDRED AND FOURTEENTH SESSION

72. The Committee was informed that the hundred and fourteenth Session was scheduled to be held in Rome from 1 to 2 June 2006.

Annex I

Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2004-05 Biennium

Highlights

The 2004-05 spending in the unaudited accounts of the Organization represents 99.9% of the US\$ 749.1 million Appropriation and results in a surplus balance of US\$ 0.9 million.

In line with previous reports to the Committee³, the 2004-05 performance is mainly impacted by a substantial unfavourable variance between actual and standard staff costs of US\$ 16 million for the biennium. As previously reported to the Finance Committee, transfers between budgetary Chapters are required for the biennium from Chapters 1, 2 and 5 to Chapter 3 (US\$ 1.5 million) and Chapter 6 (US\$ 1.3 million). The final required transfers are within the amounts previously approved by the Finance Committee⁴.

The Finance Committee had authorized the use of arrears from the major contributor for unbudgeted redeployment and separation costs (US\$4.1 million) and security expenditure (US\$2.8 million)⁵ on the understanding that every effort was made to absorb these costs within the Regular Programme budget. This was successfully achieved with the result that arrears funding remains earmarked exclusively for the purposes originally approved by Conference under Resolution 6/2001. The resulting unused arrears balance of US\$ 10.1 million will be transferred to the Capital Expenditure Facility, as authorized by the Finance Committee⁶.

The Committee is requested to take note of this report.

Introduction

1. Conference Resolution 7/2003 on the Budgetary Appropriations for 2004-05 approved a budget of US\$ 749.1 million, and Financial Regulation (FR) 4.1(a) authorises the Director-General to incur obligations up to the amount voted. Financial Regulation (FR) 4.6 requires the Director-General to manage the appropriations so as to ensure that adequate funds are available to meet expenditures during the biennium, and calls for the Finance Committee to review annually the Director-General's implementation of this regulation. This report summarises, for information and discussion, the budgetary aspects of the Regular Programme performance for 2004-05 and provides the details of the final budgetary transfers between Chapters.

Overall Biennial Regular Programme Financial Performance

2. The Director-General manages the appropriations via annual institutional allotments for the Regular Programme of Work issued by the Office of Programme, Budget and Evaluation (PBE) to allottees. The institutional allotments by programme heading constitute spending limits for allottees. The allotments are adjusted by PBE during the implementation cycle to take account of emerging programme requirements, under-budgeted activities and cost adjustments that were not planned in the PWB 2004-05.

³ FC 110/2, *Programme and Budgetary Transfers in the 2004-05 Biennium* (September 2005); FC 109/3, *Annual Report on Budgetary Performance and Programme and Budgetary Transfers* (May 2005).

⁴ CL 129/4, para 10

⁵ CL 127/14, para 79, and CL 129/4, para 9

⁶ CL 129/4, para 11

3. Table 1 summarises the overall budgetary performance versus the appropriation approved by Conference. A surplus balance of US\$ 0.9 million is recorded against the 2004-05 appropriation of US\$ 749.1 million, with 99.9% of the appropriation utilized.

4. The 2004-05 performance is based on the actual expenditure in the unaudited accounts of the Organization, adjusted for the US dollar/euro exchange rate established in the PWB 2004-05 of 1.19 (the budget rate)⁷. The difference arising from the translation of euro expenditures at the budget rate versus the UN rate of exchange (i.e. the actual rate used for accounting purposes) is reflected as an adjustment figure in Statement IV of the final 2004-05 accounts of the Organization.

Table 1. Overview of 2004-05 Regular Programme Performance (US\$ millions)

	2004-05
Budgetary Appropriation	
Programme of Work	841.0
Less Other Income	91.9
Appropriation adopted by Conference Resolution 7/2003	749.1
Net Expenditure	748.2
Expenditure vs. Net Appropriation	0.9

5. The biennial performance is mainly affected by a significant unfavourable staff cost variance. Consistent with previous estimates and explanations to the Committee⁸, the final unfavourable variance of US\$ 16 million results from a number of elements, including higher than budgeted costs for after-service benefits, entitlement travel, education grants, and medical premium claims.⁹

6. The other main unbudgeted costs which were incurred against the Regular Programme this biennium were US\$ 4.0 million in redeployment and separation costs, as a result of the budget being approved at a level US\$ 51.2 million less than zero real growth, and US\$ 2.8 million in additional security costs. The Finance Committee had authorized the use of arrears from the major contributor under Resolution 6/2001 for these two items, on the understanding that every effort was made to absorb these costs within the Regular Programme budget. The Organization was indeed able to absorb these costs within the final 2004-05 Regular Programme performance reported above, with the result that arrears funding remains earmarked exclusively for the purposes originally approved by the Conference under Resolution 6/2001.

2004-05 Budgetary Transfers and Performance by Chapter

7. As tabulated below, budgetary chapter transfers fall within the levels previously approved, with transfers from Chapters 1, 2 and 5 in favour of Chapters 3 and 6. The Chapter performances reflected below include the distribution of the unfavourable staff cost variance, and the absorption of redeployment and separation costs and security expenditures.

⁵ FC 110/2 para 8.

⁶ FC 110/2 paras 4-5 and FC 109/3 paras 10-14.

⁷ Document FC 113/11, *Treatment of Staff Cost Variance*, outlines possible measures that could be put in place to improve financial management of the staff cost variance and lessen the undesirable effect on the implementation of the approved programmes of the Organization.

Table 2. 2004-05 Budgetary Performance by Chapter (US\$ '000)

2004-05			
Chapter/Title	2004-05 Appropriation	2004-05 Expenditure	Balance vs. Appropriation
1 General Policy and Direction	67,355	66,979	376
2 Technical and Economic Programmes	329,136	326,417	2,719
3 Cooperation and Partnerships	140,773	142,303	(1,530)
4 Technical Cooperation Programme	103,027	103,027	0.0
5 Support Services	59,415	59,356	59
6 Common Services	48,794	50,139	(1,345)
7 Contingencies	600	14	586
Grand Total Regular Programme	749,100	748,235	865

8. The required transfer into Chapter 3 is significantly lower than the amount projected in the report to the Finance Committee in September (US\$ 1.5 million versus US\$ 4.2 million) due to under-spending against the allotments in two areas:

- The Investment Centre Division (TCI) undertakes agriculture and rural development project formulation work with major financing and related institutions on a cost-sharing basis. TCI, under Major Programme 3.2, under-spent as a result of higher than budgeted cost reimbursements during the biennium, coupled with economies achieved through careful cost control mainly through increased use of in-house expertise.
- The FAO Representations (Major Programme 3.4) under-spent mainly due to higher than expected cost reimbursements for office support and for operating extrabudgetary projects in the latter part of 2005.

Arrears

9. The September report on 2004-05 programme and budgetary transfers estimated unspent arrears resources under Resolution 6/2001 at approximately US\$ 5.7 million¹⁰. Together with the US\$ 4.1 million, previously reserved to cover one-time costs of redeployment and separation, the final unused arrears balance as at 31 December 2005 is US\$ 10.1 million.

10. As authorized by the Committee in its September 2005 report, the unused balance of arrears resources under Resolution 6/2001 as at 31 December 2005 will be transferred to the Capital Expenditure Facility for its effective operation. The Revised Programme of Work and Budget 2006-07 provides a detailed funding plan for these resources.

Conclusion and Action for the Committee

11. The Committee is requested to:
- a) take note of the final 2004-05 Regular Programme budgetary performance;
 - b) take note of the transfers between chapters and of the fact that they fall within the levels already approved by the Committee; and
 - c) take note of the transfer from arrears under Resolution 6/2001 to the Capital Expenditure Facility, as previously authorized and further detailed in the Revised Programme of Work and Budget 2006-07.

⁸ FC 110/2 para 17.