



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Fortieth Session

Rome, 29 November – 3 December 2010

Report of the 135th Session of the Finance Committee Rome, 25 - 29 October 2010

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REPORT OF THE HUNDRED AND THIRTY-FIFTH SESSION OF THE
FINANCE COMMITTEE

Rome, 25 – 29 October 2010

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Thirty-fifth Session.
2. In addition to the Chairperson, Mr Yasser A. R. Sorour, the following representatives of Members were present:
 - Ms Sara Cowan (Australia)
 - H.E Li Zhengdong (China)
 - Mr Louis Charicauth (Gabon)
 - Mr Shobhana K. Pattanayak (India)
 - H.E. Javad Shakhs Tavakolian (Islamic Republic of Iran)
 - Mr Claudio Miscia (Italy)
 - H.E. Jorge E. Chen Charpentier (Mexico)
 - Mr Ronald Elkhuizen (Netherlands)
 - Mr Gerardo Vega Berrio (Panama)
 - Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
 - Mr Robert Sabiiti (Uganda)
 - Mr Michael Glover (USA)
3. The Chairperson informed the Committee that Mr Claudio Miscia had been designated to replace Mr Augusto Zodda as the representative of Italy at this session; that Mr Gerardo Vega Berrio had been designated to replace H.E. Martinelli della Togna as the representative of Panama at this session; and Mr Guo Handi had been designated to replace H.E. Li Zhengdong as the representative of China for part of the session.
4. Summaries of the qualifications of Messrs Miscia, Vega Berrio and Guo are listed in the addendum to this report (CL 140/21 Add.1).
5. The Committee noted that the item entitled *Audited Accounts – FAO 2008-2009* had been withdrawn at the behest of the Chairperson from the agenda of the 135th Session due to delay in finalisation of the External Auditor's report accompanying his opinion issued on the financial statements for the 2008-09 biennium. The Committee noted that the final accounts had been submitted by the Director-General by 31 March 2010, in line with Financial Regulation XI.5, and expressed concern that the External Auditor had not submitted his report in time for this session.
6. The Committee was informed by the External Auditor that he had completed review of the final 2008-2009 accounts submitted to him, and that he was fully satisfied with these financial statements.
7. The External Auditor indicated that his report accompanying the financial statements would be finalised by the end of November 2010. The Secretariat stated that after translation the audited financial statements for the 2008-09 biennium, as well as the External Auditor's report,

would be sent to the Members of the Committee in December 2010. The item in question would be placed on the agenda of the Committee at its next regular session in March 2011.

Financial Position

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

8. The Committee welcomed the Organization's improved cash position, noting both the improved rate of payments of assessed contributions during the first six months of 2010 and, in particular, the significant reduction in the level of outstanding arrears with respect to prior periods. Outstanding assessed contributions at 19 October 2010 stood at USD 74.6 million and EUR 57.8 million, compared to USD 91.8 million and EUR 65.0 million respectively at the same date in 2009. As at 19 October 2010, the cumulative rate of receipts of current assessments for 2010 had reached 73.1%, and represented an improvement compared to the rate of receipts at this point in previous years. During 2010 more than USD 24 million was received from Members in full settlement of arrears, while an additional USD 22 million was received for partial payment of arrears. These receipts significantly improved the Organization's liquidity position at this point in 2010 compared to previous years. The Committee noted that the Organization's positive cash flow forecast to the end of 2010 was based on the assumption of significant payments from major contributors. Mindful of cash shortages in recent years due to non-payment of contributions, the Committee urged all Member Nations to make timely and full payment of assessed contributions to ensure that FAO continues to meet the operating cash requirements for the Programme of Work.

9. The Committee recalled its discussions in several past sessions concerning the efficacy and appropriateness of the incentive scheme to encourage prompt payment of contributions, which provides for discounts to be applied to assessments of those Members which pay contributions in full by 31 March. Following review of the information presented in FC 135/2 on the performance of the Incentive Scheme in previous years and considering the importance of sending a signal to Members regarding the need for early payment of contributions, the Committee agreed that the discount rate should be set at 0.07% for US dollars and 0.1% for Euros. Accordingly, a total of USD 15,951 and EUR 22,203 would be applied towards 2011 contributions of 53 Members who paid in full by 31 March 2010.

10. The Committee noted that amounts due in respect of Government Cash Counterpart (GCC) contributions arising from individual Host Country Agreements where governments contribute to the running costs of FAO Representations were USD 4.4 million at 19 October 2010 which compared to USD 4.3 million at 31 December 2009. Total GCC contributions invoiced to countries in 2010 amounted to USD 0.7 million of which USD 0.4 million had been paid so far. The Committee also noted that in addition to these cash contributions, an estimated USD 6.1 million of in-kind contributions were provided by host countries each year during 2008-09 in the form of rent-free premises at field offices.

11. The Committee noted that the balance of the Special Reserve Account (SRA) had declined from USD 18.9 million at 31 December 2009 to zero as at 30 June 2010 due mainly to the transfer to the SRA of foreign exchange differences arising on translation of Euro-denominated balances in the accounts into the Organization's US Dollar reporting currency. The Committee reviewed the Secretariat's analysis of such non-cash foreign exchange differences as set out in Annex 1 of document FC 135/2 and agreed with the proposal to restore the Special Reserve Account to its cash-backed value by transferring Euro-to-Dollar translation differences (non-cash) directly to the General Fund, noting that the overall net equity and cash reserves position of the Organization would remain unchanged.

12. The Committee noted with concern the magnitude and rising level of the General Fund deficit, expected to exceed USD 630 million by the end of 2010 due to charges for unbudgeted

costs of staff-related after-service liabilities. The Secretariat confirmed that as in prior biennia funding proposals to address the After Service Medical Coverage (ASMC) liability and the Terminal Payments Fund (TPF) would be included in the upcoming PWB proposals, for review by the Committee.

13. **The Committee:**

- **noted and welcomed the significant improvement in payments of contributions by Members and the Organization's improved cash position;**
- **agreed that the discount rate to be used to apply credits for eligible Members towards 2011 contributions should be set at 0.07% for US dollars and 0.1% for Euros;**
- **endorsed the proposal to restore the Special Reserve Account to its cash-backed value by transferring Euro-to-Dollar translation differences (non-cash) directly to the General Fund;**
- **urged all Member Nations to make timely payment of assessed contributions to ensure that FAO could meet the operating cash requirements for the Programme of Work; and**
- **noted with concern the magnitude of the General Fund deficit which was increasing due to unbudgeted costs for after-service liabilities, and agreed to review the funding proposals in the context of the PWB 2012-13.**

AUDITED ACCOUNTS – FAO COMMISSARY 2009

14. The Committee reviewed document FC 135/3b) *Audited Accounts – FAO Commissary 2009* and took note of the financial situation of the Commissary during 2009 as well as the latest projected surplus for 2010.

15. **The Committee:**

- **approved the accounts of the FAO Commissary for the year ending 31 December 2009.**

Budgetary Matters

ANNUAL REPORT ON THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES AND GOVERNANCE OF THE SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES

16. The Committee welcomed the information provided in documents FC 135/4 and FC 135/8. In response to specific queries, the Committee received additional information on the replenishment of the Fund, the nature of its three components and the type of activities funded under each of these components.

17. The Committee noted the performance of the Special Fund for Emergency and Rehabilitation Activities over the period June 2009- June 2010 and appreciated the key role of the Fund in enabling FAO to respond rapidly in the critical, early stages of an emergency, ensuring the preservation and restoration of livelihoods and contributing to saving lives. The Committee also noted the information provided on the governance of the SFERA.

18. **The Committee:**

- **requested the Secretariat to include in future annual reports more detailed financial data on the activities implemented through the SFERA; and**

- **recalled its request to review the governance and management of the SFERA within the framework of the implementation of the recommendations of the evaluation on FAO operational capacities in emergency and asked that this be provided at the Committee's October 2011 meeting.**

ANNUAL REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES

19. The Committee considered the *Annual Report on Support Costs Expenditure and Recoveries* for the period June 2009 through May 2010 and:

- **noted that the project support cost rates for the period under review were applied within the approved policy.**

PROPOSALS FOR REVISION OF FAO'S SUPPORT COST POLICY

20. The Committee did not consider the item due to delay in receiving the related document.

ADJUSTMENTS TO THE PROGRAMME OF WORK ARISING FROM FURTHER EFFICIENCY GAINS, ONE-TIME SAVINGS AND WORK PLANNING

21. The Committee reviewed the forecasted Chapter distributions presented in document FC 135/6 of the 2010-11 budgetary appropriation arising from initiatives and measures to achieve further efficiency gains and one-time savings, as well as adjustments arising from preparation of biennial work plans.

22. The Committee took note that the forecasted budgetary transfers arising from the implementation of the Programme of Work would be reported to the Committee for review and approval in March 2011. The Committee appreciated that the Secretariat expected to fully achieve the USD 22.8 million efficiency gains and one-time savings within the Programme of Work 2010-11 and that their actual distribution would be reported at the end of the biennium.

23. The Committee expressed interest in the potential for future up-scaling of efficiency savings and effectiveness measures resulting from the Innovation Fund.

24. **The Committee:**

- **endorsed the forecasted Chapter distributions of the 2010-11 budgetary appropriation of USD 1,000.5 million arising from initiatives and measures to achieve USD 22.8 million in further efficiency gains and one-time savings, as well as adjustments arising from preparation of biennial work plans.**

IMMEDIATE PLAN OF ACTION (IPA): FINANCIAL PLAN 2010-2011 AND ESTIMATED FINANCIAL REQUIREMENTS 2012-2013

25. The Committee welcomed the anticipated full expenditure of the 2009 IPA Trust Fund balance of USD 3.08 million in 2010. It also noted the anticipated 2010 IPA expenditure of USD 16.8 million against the 2010-11 budgetary appropriation to fund the implementation of the IPA of USD 39.6 million.

26. The Committee took note of the major cost variations foreseen between IPA projects in 2010-11, and appreciated the confirmation that aggregate costs and savings remained the same as the approved appropriation of USD 39.6 million.

27. The Committee noted that the IPA was linked to the FAO strategic and functional objectives in the appropriations, divisional workplans and budgetary reporting for 2010-11.

28. The Committee appreciated that the 2012-13 IPA resources would be similarly linked in the PWB, as well as during the implementation of the budget, allowing for a full integration of IPA activities in the results framework.

29. The Committee was also informed of the preliminary 2012-13 IPA programme estimates of USD 39.5 million which would be further elaborated in the 2012-13 PWB. In addition, the Committee welcomed the confirmation that all IPA-related funding in 2010-11 would be used exclusively for IPA activities, and unspent 2010-11 IPA funds, if any, would be carried-over into 2012-13.

30. **The Committee:**

- **noted the anticipated 2010 expenditure of USD 16.8 million and forecasted shifts between projects against the 2010-11 IPA budget of USD 39.6 million; and**
- **looked forward to the Secretariat providing updated information on the preliminary 2012-13 estimates within the context of the PWB 2012-13 at the forthcoming special session of the Committee in February 2011.**

Human Resources

IMPLEMENTATION OF CORPORATE HUMAN RESOURCES STRATEGY

31. The Committee noted the progress that continued to be made in delivering against key human resources (HR) initiatives and activities outlined in the HR Strategic Framework and Action Plan 2010-11. In particular, it encouraged the timely implementation of the HR strategic action plan on gender representation and noted, in the context of HR reform, the importance of developing and implementing an FAO Competency Framework which would be based on the UNICEF model. The Committee further noted that the budget for staff mobility had been reduced based on a realistic assessment of the number of achievable geographic moves in the current biennium and that interim mobility guidelines had been developed to achieve the IPA target, and that further proposals would be presented at PWB.

32. With regard to recruitment, the Committee acknowledged the significant volume of applicants for the Junior Professionals programme and emphasized the importance of meeting the minimum targets of 60% of junior professionals from non- and under-represented developing countries and 50% female, as stipulated in the policy. It welcomed initiatives and revised procedures being implemented to reduce recruitment timeframes and reaffirmed the importance for the Organization to pursue its efforts to curb geographical and gender imbalances, while upholding the primary importance of competence and merit in selecting candidates to vacant positions. While noting that the recently introduced procedures requiring prior consultation with the HR division on the recruitment of nationals from countries nearing the ceiling of their geographic representation range were aimed at promoting geographic balance, the Committee expressed concern at delays that were incurred as a result.

33. **The Committee:**

- **requested that progress continue to be made in delivering against key HR initiatives and activities included in the HR Strategic Framework and Action Plan and that information also be provided on the impact of these initiatives;**
- **took note of the HR activities that were experiencing delays and looked forward to receiving periodic progress reports on their timely implementation at its future sessions; and**
- **requested that information on the nationality of consultants recruited by the Organization be included in the HR data pack to be provided at its next regular session.**

Administrative and Information Systems Framework

PROPOSAL FOR THE CREATION OF A SINGLE SHARED SERVICES CENTRE

34. The Committee reviewed the summary of an analysis of the current Shared Services hubs and the proposal to consolidate back-office services in the Budapest centre. It noted that a review took place following initial discussions at Regional Conferences, noting that some Regional Conferences had not taken place at the time; in the FAO Council in 2010; and following advice from two consulting firms. The team that undertook the review included senior FAO staff and a senior consultant from the Accenture consulting firm.

35. The Committee discussed in detail the technical merits of the proposal to establish a single global Shared Services Centre in Budapest for back-office human resource and travel functions. It recalled that the initiative was linked to the ongoing efforts of the Organization to generate recurring efficiency savings as required by the 2009 Conference, and noted that the proposal was expected to result in biennial savings of USD 1.6 million.

36. The Committee was advised that consolidation would allow for standardization of processes and economies of scale. It also took note that consolidation of back-office functions into a single global centre was in line with the approach taken by several comparable organizations in recent years, including the World Bank, UNDP, UNFPA, WHO and WFP.

37. The Committee took note of the Secretariat's advice that, based on an internal survey, clients from the locations without SSC hubs - namely Headquarters, the Near East and Africa Regions - had not reported any negative impact on the services provided. It was also informed that an audit report on the Shared Services Centre in Budapest in 2010 concluded that the Centre was delivering satisfactory results. The Committee also recalled that an earlier visit to the Budapest Centre by some members of the Finance Committee had produced positive feedback.

38. The Committee was informed that time zone considerations had been a major factor in recommending a three-hub approach to Council four years earlier¹ and took note that the importance of this consideration had evolved and changed over the years. As evidence had since shown that the turnaround time for the vast majority of transactions was more than 24 hours, time zone considerations were no longer considered relevant.

39. On the choice of Budapest as the proposed location for the single Shared Services Centre, the Committee was reminded that in 2006 the FAO Council approved Budapest as the Centre with two hubs, in Bangkok and Santiago, and a coordination unit in Rome following an in-depth review of a number of locations with criteria including information technology infrastructure, availability of staff, and contribution of host government². The Committee received information that since that time Budapest had delivered the envisaged financial benefits and, following a period of transition, sustained good levels of satisfaction for its quality of services. The Secretariat stated that the Budapest Centre now employs over 100 staff and that it is the location of choice, not least because of its continued favourable staff standard costs compared to other locations, including Bangkok and Santiago.

40. Following concerns expressed by several members on the social impact of eliminating posts, the Secretariat reminded the Committee that budgetary decisions and efficiency savings usually entailed staffing implications, which in previous biennia had affected hundreds of staff. The Secretariat reiterated that this proposal would affect 24 staff members out of a Regular Programme staffing establishment of more than 3000 – that is, less than 0.8% of the total. The

¹ CL 131/18 Add 1

² *ibid*

Committee was informed of Management's assurance that staff issues would be handled in the most socially responsible way; specifically as was the case when similar staff reductions were required in Rome, Cairo and Accra. In this regard, the Committee took note of the importance of an early decision to allow appropriate lead time and adequate planning to mitigate social impact before implementation in 2012.

41. **The Committee:**

- **noted the review of the Shared Services Centre and of the SSC hubs;**
- **took note of the additional information requested by its members and clarifications provided by the Secretariat as outlined above, which allowed for a more detailed technical understanding of the proposal from Management; and**
- **concluded that the proposal for the creation of a single Shared Services Centre, or the maintenance of the *status quo*, should be submitted to the Council for review and for decision after feedback on the matter from the Regional Conference of the Near East.**

PROGRESS REPORT ON ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

42. The Secretariat informed the Committee of the progress of the project to implement International Public Sector Accounting Standards (IPSAS), together with the design of the new Field Solution to replace the current Field Accounting System. The Committee acknowledged the impact on all ERP-dependent projects of the necessary upgrade of the Organization's systems to Oracle Release 12 and recognised the benefits of adopting a cost effective, synergistic approach to upgrade the ERP to Oracle R12 in parallel with the IPSAS Project. It noted this approach ensured that the Organization would not be required to rely on an unsupported version of its ERP and also allowed the utilization of new functionality in R12 to deliver the web-based integrated Field Solution needed to support the business requirements of the Field Offices. The Committee was informed that the Field Solution, which had been developed through extensive consultation with field staff, would be supported by an upgrade of the wide area network infrastructure and an increased use of support centres to assist the local administrative staff with their processing needs. The Committee noted that under the synergistic approach IPSAS compliant systems would be delivered in 2012 and the first set of IPSAS compliant financial statements would be prepared for the year ending 31 December 2013.

43. The Committee was informed that consolidated cost estimates for the new synergistic approach which would cover both the Capital Expenditure Facility (Capex) and IPA funding sources would be developed for inclusion in the PWB 2012-13. The Committee agreed that the synergistic R12/IPSAS Project would require highest priority in Capex.

44. The Finance Committee reviewed the proposed changes to the Financial Regulations presented in document FC 135/12 required to introduce IPSAS. It endorsed the draft resolution in Appendix 2 of that document, subject to an in-principle agreement that further text be added specifying the date in each year by which the External Auditor normally would be required to issue his opinion on the audited financial statements.

45. **The Committee:**

- **supported the synergistic approach to upgrade to Oracle R12 in parallel with the IPSAS Project, so as to deliver IPSAS compliant systems in 2012 and allow for preparation of IPSAS compliant financial statements for the year 2013.**
- **requested that the estimated costs and proposed funding of the synergistic approach be presented at its Special Session in February 2011; and**
- **agreed to forward a draft resolution (see Annex I) containing proposed changes to the Financial Regulations which introduce annual audited financial statements, to the Committee on Constitutional and Legal Matters (CCLM) with the understanding that a yearly date for the issuance of annual audited financial**

statements would be added in the draft resolution following consultation between the Committee and the External Auditor.

PROGRESS REPORT ON INTRODUCTION OF AN ENTERPRISE RISK MANAGEMENT FRAMEWORK

46. The Committee considered Enterprise Risk Management (ERM) to be an important project and commended the direction that the Secretariat had outlined for its introduction in FAO, embedded in the results-based management process.

47. **The Committee looked forward to receiving at its next regular session:**

- **a report on progress in implementing the ERM project work plan;**
- **a report on the results of the pilots of ERM processes; and**
- **a plan for implementation of the institutional ERM in FAO, including the format for reporting to the Governing Bodies.**

TERMS OF REFERENCE AND COMPOSITION OF THE ETHICS COMMITTEE

48. The Committee reviewed document FC 135/14 *Terms of Reference and Composition of the Ethics Committee*. The Committee noted that the document had been prepared in response to the IPA, as approved by the Conference in November 2008, and recalled that proposals for the establishment of the Committee had been under review for some time. It expressed its appreciation for the continuing efforts of the Secretariat to prepare the terms of reference, noting that in arriving at the present proposals the Secretariat had been guided by the conclusions of a review of the ethics function by Ernst & Young, who were available to provide clarifications on their findings.

49. The Committee, appreciating the rationale for a number of adjustments made, requested that its concerns be reflected in a revised submission to the sessions of the CCLM and the Finance Committee of March 2011. Specifically,

50. **The Committee:**

- **underlined the importance of the timely implementation of the proposal, as part of the IPA action matrix on ethics;**
- **requested that a revised proposal reflecting its suggested adjustments be referred to the CCLM for examination of legal issues and then to the Finance Committee in March 2011; and**
- **indicated that the revised proposal should:**
 - **reflect an increase from three to four in the number of outside members;**
 - **provide for the same procedure for both the appointment and any subsequent renewal of the appointment of outside members;**
 - **redefine the role of the Committee to clarify that, while exercising an advisory function for the Ethics Office and the implementation of the ethics programme, the Committee would not be involved in operational activities, nor have any formal supervisory responsibilities over the activities of the Ethics Officer; and**
 - **examine the possibility that the Ethics Officer should not be the secretary of the Committee and that the Organization should make such secretarial arrangements as required for the servicing of the Committee.**

LANGUAGE SERVICES AND FUNDING OPTIONS

51. The Committee welcomed document FC 135/15 *Language Services and Funding Options*, which reported on the results of a study carried out in response to requests made in 2009 by the Council and the Committee on Constitutional and Legal Matters.

52. The Committee appreciated the attention devoted to multilingualism and parity in the use of FAO languages, recognizing that quality improvements in language services had been made during the last years. It also noted the efforts made towards cost effectiveness. In this context, the Committee stressed the need to strictly adhere to the current policy requiring that all external translators be drawn from the FAO roster of approved translators, and urged the use of further remote translators.

53. The Committee expressed concern that, apart from translation costs, there was no overall vision for funding of language services, and looked forward to the implementation of IPSAS as a means to provide additional information.

54. **The Committee:**

- **supported the proposed measures for improvement of language services, which included the following activities:**
 - a) **centralized management of translation contracting, with mandatory use of an enhanced central roster;**
 - b) **increased coverage and cost-efficiency of interpretation and translation services;**
 - c) **improved quality of original texts; and**
 - d) **implementation of a Total Quality Management system in the language services; and**
- **looked forward to the finalization of the study to permit further consideration of improvement measures in the light of quantified financial implications in the PWB 2012-13**

PROGRESS ON THE FINANCIAL DISCLOSURE PROGRAMME

55. The Committee noted document FC 135/16 *Progress on the Financial Disclosure Programme*. It also took note of a detailed presentation by the external consultants assisting in formulation of the programme, Ernst & Young, emphasizing the primary value of the programme in pre-empting situations where a conflict of interest can arise and acting as a meaningful deterrent through review of positive disclosures, follow-up on allegations and random sampling.

56. The Committee reviewed a roadmap with associated time chart for the implementation of the programme, as presented by Ernst & Young, which included a start and transition phase, a pilot phase and a learning and roll-out phase to be completed between December 2010 to December 2011. It took note of the approach and timing for initiating the financial disclosure process and designing a pilot, followed by the completion and review of pilot financial disclosure declarations, leading to the roll-out of the programme in December 2011.

57. The Committee took note of Management's awareness of the many issues to be solved to ensure a satisfactory functioning of the programme.

58. Following a discussion on a range of conceptual and implementation issues which would be progressively addressed during the implementation of the roadmap, **the Committee:**

- **endorsed the time chart for the implementation of the financial disclosure programme;**
- **stressed the need to ensure coordination with, and draw upon the experience of other Rome-based agencies and relevant organizations world-wide, in order to assist in the efficient design of the programme;**
- **welcomed the phased development and implementation of a system tailored to meet the needs of FAO duly reflecting all pertinent considerations, including, *inter alia*: the identification of high risk employees; confidentiality issues; cost considerations; administrative convenience; effectiveness in dealing with possible instances of unsatisfactory conduct; coverage of spouses, as well as dependents under the age of 21; and considerations related to applicable law, including host country laws and regulations; and**

- **noted that it would receive a progress report on the implementation of the roadmap at its session of March 2011.**

Oversight

FAO AUDIT COMMITTEE – 2009 ANNUAL REPORT TO THE DIRECTOR-GENERAL

59. The Committee welcomed the report and was encouraged that Management had initiated meaningful actions to address the areas of concern highlighted by the Audit Committee in its report to the Director-General. The Committee also noted the link between the IPA Reform and outstanding AUD recommendations, and that the implementation of the reform would likely address a number of outstanding AUD recommendations.
60. **The Committee looked forward to receiving in future:**
- **more information related to Management’s implementation of the recommendations of the Audit Committee;**
 - **both the Annual Report of the Inspector General and that of the Audit Committee at the regular sessions of the Finance Committee held in the spring on a yearly basis to enable the Committee to discuss both oversight reports together; and**
 - **a matrix that encompasses all fiduciary responsibilities and related actions, including a financial disclosure programme and a whistleblower protection policy the Organization had in place or planned to implement to address the recommendations of oversight bodies or donors.**

Improved Methods of Work and Efficiency of the Finance Committee

THE MULTI-YEAR PROGRAMME OF WORK OF THE FINANCE COMMITTEE 2010-13

61. In line with the Immediate Plan of Action for FAO Renewal, the Committee reviewed its own draft Multi-Year Programme of Work (MYPOW) 2010-13.
62. The Committee noted its potential future role in reviewing the reports of the Ethics Committee and agreed to insert a reference to this effect in its MYPOW.
63. **The Committee:**
- **approved its Multi-Year Programme of Work 2010-13, as included in Annex II; and**
 - **recommended its review by the Council.**

WORKING METHODS OF THE FINANCE COMMITTEE

64. The Committee commended the Secretariat on the very good quality of documents submitted for the session. It noted that its consideration of agenda items would benefit from preparation for each session of a monitoring document containing the status of its recommendations to Council, the Secretariat and others, in order to better track their progress.
65. The Committee also reiterated the need for due care and attention in formulation of its own reports at adoption stage so as to accurately inform Council members and other readers of its discussions and recommendations.
66. The Committee agreed that it was desirable for Committee members to visit decentralised offices of the Organization in order to appreciate the span of FAO’s normative and operational activities. In this respect, the Committee recalled that the matter had been discussed within the context of the IPA, and some provision of funds for Field visits by Permanent Representatives

was reflected in the PWB 2010-113. The Committee was informed that the Independent Chairperson of Council was coordinating discussion on implementation of the issue.

67. The Committee noted that in future newly elected members could benefit from an overview briefing of the mandate and functions of the Committee at the inception of each new term of office of the Committee.

68. **The Committee:**

- **requested the Secretariat prepare a document for each session outlining the status of its previous recommendations;**
- **noted the need to formulate its own reports with accurate and comprehensive language; and**
- **agreed the Chairperson would consult with the Independent Chairperson of the Council in order to explore modalities and practical issues relating to possible Field visits by Committee members.**

Standing items

DATE AND PLACE OF THE HUNDRED AND THIRTY-SIXTH SESSION

69. The Committee was informed that the 136th Session was tentively scheduled to be held in Rome from 21 to 25 March 2011. The Committee further agreed that a special session dedicated to elements of the Programme of Work and Budget 2012-13 within the Committee's mandate be held beforehand in early 2011. The dates of such a special session would be confirmed following consultation by the Chairperson with the Secretariat and others.

ANY OTHER MATTERS

FAO Procurement Policy and Practice

70. The Committee listened to an oral presentation on two aspects of the Organization's procurement policy, namely regarding information on the vendor management project (under the IPA) and the current vendor selection process for tenders; as well as to a short brief on the activities of the Common Procurement Team of FAO/WFP/IFAD.

71. The vendor management project had the objective of making the process more efficient, shortening the tender time and increasing transparency, and would also implement 5 internal audit recommendations. The Committee recalled that a report was submitted to the Council at its 137th Session in 2009 on the intention to set up a Common Procurement Team of the three Rome-based agencies. This was implemented as of 1 January 2010 and since that time all tenders for the headquarters of the Rome-based agencies had been carried out jointly. The original goal was for 12 joint tenders during 2010, and that number had been surpassed with 17 tenders thus far this year. The Committee took note of the information presented.

72. The Secretariat informed the Committee that as of 1, January 2011, FAO would publish Global Environment Facility (GEF) awards, as was already done for tenders awarded with EU financing, and was exploring the implications of doing so for all awards.

Project Servicing Cost Rate for the G77 Trust Fund

73. The Chairperson informed the Committee that the Chairperson of the G77 Group had requested it to review the project servicing cost (PSC) rate applied to the G77 Trust Fund project created in 2007 to support South-South Cooperation efforts within the context of G77 Capacity

³ C 2009/15, para. 177

Building. The Committee noted that it was being requested to consider recommending either total exemption for the G77 Trust Fund from application of PSC, or a reduction of the same.

74. The Committee recalled that FAO policy for setting PSC rates, including for voluntary contributions held in Trust Funds, was endorsed by Council in November 2000⁴. It noted that exemption from the policy required specific endorsement from the Governing Bodies, including the FAO Conference; and that there had been no such exemption since the policy was endorsed.

75. **The Committee:**

- **requested the Secretariat to undertake a technical review of the activities relating to the G77 Trust Fund in order to ascertain whether the standard 13% PSC rate could be reduced within the parameters and scope of FAO policy on setting PSC rates, and to communicate its outcome to the Chairperson before the end of November 2010.**

Consideration of the Budget of the Committee on Food Security

76. The Committee discussed its potential role in providing input on the budget of the Committee on Food Security (CFS). The Secretariat clarified that its review could be envisaged within the context of the formulation of the relevant Organizational Result in the Programme of Work and Budget for 2012-13, and drew attention to the complementary role of the Programme Committee, whose mandate was more closely aligned to the review of proposals under FAO's Strategic Objectives.

77. **The Committee:**

- **requested the Chairperson to consult with the Chairperson of the Programme Committee on the respective roles of the two Committees in providing recommendations to Council on the budget of the CFS in the PWB 2012-13.**

Disclosure of Internal Audit Reports

78. The Inspector General informed the Committee that the disclosure of internal audit reports to Members had gained wider acceptance over the years, and most of the UN funds and programmes and some UN specialized agencies were now making such reports available. The Committee noted the information provided and looked forward to reviewing a proposed policy at its next regular session in March 2011.

Update on FAO Whistleblower Policy

79. The Committee looked forward to reviewing the whistleblower policy at its next regular session of March 2011.

⁴ CL 119/13 Annex II and subsequent refinements in CL 112/4 paragraphs 21-23; CL 128/4 paragraphs 20-25; CL 131/7 paragraphs 49-52.

Annex I

Draft Resolution for Amendments to the Financial Regulations

CONFERENCE RESOLUTION

AMENDMENTS TO THE FINANCIAL REGULATIONS

THE CONFERENCE

Recalling that the Finance Committee, at its 135th Session held from 25 to 29 October 2010, proposed amendments to the Financial Regulations for transmission to the Committee on Constitutional and Legal Matters for endorsement and submission to the Council;

Considering that the Committee on Constitutional and Legal Matters, at its _____ Session held from __ to __ March 2011, reviewed and endorsed the proposed amendments to the Financial Regulations;

Noting that the Council, at its _____ Session held from __ to __ April 2011, agreed to transmit to the Conference, for its approval, the proposed amendments to the Financial Regulations;

Decides to amend the Financial Regulations as follows:

Annex II

The Multi-Year Programme of Work of the Finance Committee 2010-13

Overall Objective for the Finance Committee for 2010-13

1. FAO Council has a solid analytical basis for sound, timely, effective and efficient decision making with respect to the Organization's financial position, budgetary matters, administrative and information systems framework, human resources and oversight activities, as well as for planning of financial and budgetary resources of the Organization, in order to improve the quality of FAO's work and strengthen the delivery of its services to Members.

Results for 2010-13

2. The specific results below will also be consistent with, and in the context of, achieving Efficient and Effective Administration (FAO Functional Objective Y) and Effective Collaboration with Members States and Stakeholders (FAO Functional Objective X).

3. Through the indicators for Results 1 to 6 below, the Finance Committee (FC) seeks to provide sound technical and policy advice and guidance to the Council (CL). It is recognized that the CL will consider other factors beyond the purview of the FC when taking decisions on these matters.

I. MONITORING FINANCIAL POSITION

Result: Council (CL) advice and decisions on financial position are strongly based on Finance Committee (FC) guidance and recommendations

Indicators and targets:

- FC recommendations on the Audited Accounts of FAO are endorsed in the CL report to Conference
- FC recommendations on the Scale of Contributions are endorsed in the CL report to Conference
- FC recommendations and guidance on the technical requirements for financial integrity and stability (resource mobilization, liabilities, investments) are duly considered by the CL

Outputs: Clear, precise and consensual recommendations to the CL

Activities:

- Assessment of Audited Accounts of the Organization, along with the concomitant report of the External Auditor
- Continual assessment of unaudited accounts and financial highlights
- Continual review of status of assessed contributions and arrears, and cash flow situation of the Organization
- Review status of resource-mobilization and voluntary contributions
- Assessment of the state of unfunded liabilities, in particular staff-related liabilities including from After Service Medical Coverage
- Annual review of FAO investments
- Review of Audited Accounts of the FAO Commissary and Credit Union

Working methods:

- Regular contact with ADG/CS, Director CSF, and other concerned units

- Close collaboration with the External Auditor
- Close collaboration with the Programme Committee (PC)

II. BUDGETARY MATTERS

Result: CL advice and decisions on budgetary matters are strongly based on FC guidance and recommendations

Indicators and targets:

- FC decisions on Budgetary Transfers are noted in the CL report
- FC recommendations on Budgetary performance are endorsed in the CL report
- FC recommendations on financial aspects of formulation of the MTP/PWB are duly considered by the CL
- Technical recommendations of the FC on adjustments to the Programme of Work, IPA financing, and other budgetary matters are duly considered by CL

Outputs: Clear, precise and consensual decisions and recommendations to the CL

Activities:

- Assessment of, and decisions on, proposed Budgetary Transfers, in line with Financial Regulation 4.5 (b)
- Review of annual Budgetary performance
- Review of estimated costs, allotments, and overall financing of IPA implementation
- Assessment of proposals on reporting policy of Budgetary Transfers, and policy on project servicing costs
- Review and make recommendations on cost increases and other technical aspects in the formulation of MTP/PWB
- Monitor financial aspects of adjustments to the Programme of Work for unidentified further efficiency gains and one-time savings
- Review progress of the resource-mobilization and management strategy

Working methods:

- Regular contact with Director OSP, ADG/CS, and other concerned units
- Close collaboration with the PC
- Close collaboration with the Independent Chairperson of Council
- Informed by deliberations of the CoC-IEE

III. HUMAN RESOURCES

Result: CL advice and decisions on Human Resources are based on FC guidance and recommendations

Indicators and targets:

- FC observations and guidance on human resources issues are endorsed in CL reports

Outputs: Clear, precise and consensual recommendations

Activities:

- Assess progress of implementation of corporate HR strategy, including in specific areas foreseen under the IPA, against MTP/PWB targets, including:
 - Staff Rotation
 - Gender Balance
 - Geographic Representation
 - PEMS
 - Staff Development
 - Junior Professional Programme
- Review FAO HR policies vis-à-vis the UN Common System
- Review use of consultants retirees on an annual basis

- Review recommendations of the General Assembly, the International Civil Service Commission, and the United Nations Joint Staff Pension Board

Methods of work:

- Regular contact with ADG/CS, Director CSH and other concerned units
- Close collaboration with the Independent Chairperson of Council
- Informed by deliberations of the CoC-IEE

IV. ADMINISTRATIVE AND INFORMATION SYSTEMS FRAMEWORK

Result: CL advice and decisions on effective and efficient administrative and information systems are based on FC guidance and recommendations

Indicators and targets:

- FC recommendations on enhancing administrative and business processes and structures are endorsed in the CL report
- FC recommendations on reform of management and administrative systems are endorsed in the CL report

Outputs: Clear, precise and consensual recommendations

Activities:

- Review reform of management and administrative systems, including on procurement policy
- Monitor progress of implementation of International Public Sector Accounting Standards
- Review proposals relating to structure and functions of decentralized offices
- Review progress on the introduction of an Enterprise Risk Management framework for the Organization
- Review terms of reference and subsequent reports of the Ethics Committee, as appropriate
- Review of assessment of FAO's language services

Methods of Work:

- Frequent and regular contact with ADG/CS and other concerned units
- Close collaboration with the PC
- Close collaboration with the Independent Chairperson of Council
- Informed by deliberations of the CoC-IEE
- Working within context of advice from Regional Conferences

V. OVERSIGHT

Results: CL advice and decisions on internal and external oversight matters are strongly based on FC guidance and recommendations

Indicators and targets:

- FC recommendations on internal audit and external audit are endorsed in the CL report
- FC recommendations on implementation reporting are endorsed in the CL report
- Council's appointment and/or re-appointment of the External Auditor is based on recommendations from the FC

Outputs: Clear, precise and consensual recommendations

Activities:

- Review of the results-based monitoring and reporting system
- Assess progress of implementation of External Auditor's recommendations
- Annual review of the activities of the office of the Inspector-General
- Review the Annual Report of the FAO Audit Committee

- Oversee the process for renewal of incumbent External Auditor, and/or for appointment of a new External Auditor, and make a specific recommendation to CL accordingly
- Review relevant UN Joint Inspection Unit reports

Methods of Work:

- Regular contact with the office of the Inspector-General, and other concerned units
- Close collaboration with the External Auditor
- Close collaboration with the PC

VI. PLANNING OF FINANCIAL AND BUDGETARY RESOURCES FOR THE ORGANIZATION

Results: CL advice and decisions on financial and budgetary planning proposals take into account FC recommendations and guidance

Indicators and targets:

- FC provides sound technical recommendations and guidance on funding of staff related liabilities and replenishment of reserves to CL for its recommendations to Conference
- FC provides sound technical recommendations and guidance to CL on the results-based formulation and overall funding levels in the MTP/PWB for FAO Functional Objective Y (Efficient and Effective Administration) and Functional Objective X.4 (Effective Collaboration with Members States and Stakeholders)
- FC provides sound technical recommendations and guidance on adjustments to the Programme of Work to CL for its decisions or recommendations to Conference

Outputs: Clear, precise technical recommendations with presentation of a range of well-defined options for consideration by the CL where appropriate

Activities:

- Assess the state of unfunded liabilities, in particular staff-related liabilities including from After Service Medical Coverage
- Assess the requirements for funding and revision of the Organization's reserves
- Assess requirements for adjustments to the Programme of Work for unidentified further efficiency gains and one-time savings
- Review status of the resource-mobilization and extra-budgetary funding

Methods of Work:

- Regular contact with ADG/CS, Director OSP and other concerned units
- Close collaboration with the PC, including on adjustments to the Programme of Work and in formulation of MTP/PWB
- Close collaboration with the Independent Chairperson of Council
- Informed by deliberations of the CoC-IEE, and working within context of advice from Regional Conferences

VII. IMPROVED METHODS OF WORK AND EFFICIENCY OF THE FINANCE COMMITTEE

Results: The FC works in a proactive, inclusive and efficient manner, and has a forceful advisory role

Indicators and targets:

- The agendas of FC meetings are consistently integrated into overall governance structure of the Organization
- The agendas of FC meetings focus on a few strategic issues
- The reports of the FC are structurally coherent with relevant segments of CL agenda, allowing CL to clearly identify relevant decisions and recommendations

- The reports of the FC are prepared in an efficient manner in order to ensure optimal use of time and resources available at FC sessions

Outputs:

- Clear, precise and consensual recommendations
- A multi-year programme of work for the work of the FC

Activities:

- Finalizing a multi-year programme of work for the FC
- Reporting on achievement against targets in the multi-year programme of work at the end of the biennium
- Enhanced use of joint meetings with the PC
- Continuous review of methods of work of the FC, including review of matters via (virtual) meetings

Methods of work:

- Strategic issues are prioritized in formulation of FC agendas
- Documents for agenda items are well prepared by the Secretariat
- Concise and relevant presentations to agenda items are requested of the Secretariat
- Deliberations of the FC are concise and relevant
- Joint meetings and close collaboration with the PC
- Informal consultations on the multi-year programme of work
- Informal, inter-sessional consultations amongst Members
- Close collaboration with the Independent Chairperson of Council
- Working within context of decisions and advice from other Governing Bodies, including the CCLM

Annex III

Information documents

The following documents were submitted to the 135th Session of the Finance Committee for information only:

- Audited Accounts – FAO Credit Union 2009 (doc. FC 135/INF/2)
- 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) (doc. FC 135/INF/3)
- Report of the UN Joint Inspection Unit
- National Execution of Technical Cooperation Projects (JIU/REP/2008/4) (doc. FC 135/INF/4)