Executive Summary

At its second regular session in 2014, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 156th Session, the Committee:

- **Makes specific recommendations** to the Council: (i) urging Members to make timely and full payment of assessed contributions (para 7); and (ii) on the Audited Accounts for the 2012-13 biennium (para 10).

- **Informs** Council of its decisions: (i) concurring with the suggested rates for use in determining discounts for Member Nations associated with the incentive scheme for prompt payment of contributions (para 7); (ii) approving the FAO Commissary 2013 Accounts (para 12); and (iii) endorsing the Comprehensive Financial Framework (CFF) cost recovery model (para 18).

- **Brings to the attention** of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, human resources, administrative and information systems framework, oversight and other matters.

- **Highlights** to Council initiatives to improve its own work.
Suggested action by Council

The Council is requested to:

- **endorse** the recommendations of the Committee on timely payment of assessed contributions and the Audited Accounts for the 2012-13 biennium.
- **take note** of the decisions of the Committee on incentive scheme discount rates, the FAO Commissary 2013 Accounts and the Comprehensive Financial Framework (CFF) cost recovery model.
- **endorse** the Committee's guidance provided to the Secretariat on all other matters within its mandate, as well as initiatives to improve its own methods of work.

Queries on this document may be addressed to:

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Introduction

1. The Committee submitted to the Council the following report of its Hundred and Fifty-sixth Session.

2. In addition to the Chairperson, Mr Moungui Médi, the following representatives of Members were present:
   - Mr Matthew Worrell (Australia)
   - Mr Olyntho Vieira (Brazil)
   - Mr Georg Friedel Cramer (Germany)
   - Mr Abdoulaye Traoré (Guinea)
   - Mr Osamu Kubota (Japan)
   - H.E. Perla Carvalho Soto (Mexico)
   - Mr Mostafa Nahi (Morocco)
   - Mr Khalid Mehboob (Pakistan)
   - Mr Vladimir V. Kuznetsov (Russian Federation)
   - Ms Abla Malik Osman Malik (Sudan)
   - Ms Natalie E. Brown (USA)

3. The Chairperson informed the Committee that:
   - Mr Khaled M.S.H. Eltaweel (Egypt) did not attend this session;
   - Mr Benito Jiménez (Mexico) had been designated to replace H.E. Perla Carvalho Soto for part of the session;
   - Mr Mostafa Nahi (Morocco) had been designated to replace Mr Fouzi Lekjaa for this session; and
   - Mr Vladimir Navara (Russian Federation) had been designated to replace Mr Vladimir Kuznetsov for part of this session.


5. In addition, silent observers from the following Member Nations attended the 156th Session of the Committee:
   - Belgium
   - Canada
   - Finland
   - France
   - Jordan
   - Netherlands
   - Philippines
   - San Marino
   - Thailand
   - United Kingdom
   - Venezuela (Bolivarian Republic of)

Monitoring Financial Position

Financial Position of the Organization

6. The Committee reviewed document FC 156/2, the Financial Position of the Organization as at 30 June 2014 and cash flow forecast for 2014, including the liquidity of the Organization, the status of outstanding assessed contributions, short and long term investments, staff related liabilities, Technical Cooperation Programme (TCP) expenditure and outstanding balances, and the General Fund deficit.
The Committee was also provided with an updated status of current assessments and arrears and liquidity situation of the Organization as at 29 October 2014.

7. **The Committee:**
   
a) welcomed the improvement in the liquidity position of the Organization and noted that cash levels were forecasted to be sufficient to cover operational requirements through the end of 2014 without recourse to external borrowing. 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;

b) commended the resource management practices and investment policies being applied by the Organization;

c) noted that future reports could benefit from further articulation of information on extra-budgetary resources;

d) noted that the General Fund deficit was estimated to reach USD 890 million as at 31 December 2014 due principally to the gaps in funding for the After Service Medical Coverage scheme and the Terminal Payments Fund, and that this matter would be considered further by the Committee under the agenda item 5 on the Funding of After Service Medical Coverage (ASMC) Liabilities;

e) reviewed the measures currently in place to improve the timely payment of contributions and arrears, and recalling the guidance of Council at its 149th Session, requested the Secretariat to continue exploring measures to encourage timely payment of assessed contributions, in particular by examining and applying best practices in this regard used by other international bodies;

f) recalling the recommendation of the Committee at its 154th Session that the Incentive Scheme be abolished, and the Council’s endorsement of this recommendation at its 149th Session, the Finance Committee decided that a rate of 0 per cent should be used in determining the amount of discount for each Member Nation that had paid its contributions in full before 31 March 2014, pending formal approval of the recommendation to abolish the Incentive Scheme by the Conference at its 39th Session in June 2015.

8. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for the biennium 2012-13, including a presentation by the External Auditor of her Long Form Report on the audit of the financial operations of FAO, highlighting the principal recommendations and observations presented in the Report.

9. **The Committee:**
   
a) welcomed the issuance of the External Auditor’s unqualified opinion and expressed appreciation for the quality of the Long Form Report;

b) appreciated the close collaboration and support provided by the Secretariat to the External Auditor during the performance of the audit;

c) looked forward to receiving feedback from the Secretariat on the implementation of the recommendations presented in the Report, in particular on strengthening the internal control framework in decentralized offices;

d) noted the emphasis placed by the External Auditor on the importance of addressing the underfunding of staff related scheme liabilities.

e) reiterated the importance of continuing to monitor the rate of approval and disbursement against the Technical Cooperation Programme appropriation; and

f) requested the Office of the Inspector General to review and report on the proposed procurement strategy. Furthermore, it requested the Inspector-General to provide detailed information on matters related to fraud and presumptive fraud.
10. The Committee, noting the comments and clarifications provided by the External Auditor and the Secretariat, recommended that the Council submit to the Conference for adoption, the Audited Accounts for the 2012-13 biennium. The Committee accordingly agreed to submit to the Council the draft resolution below for forwarding to the Conference:

DRAFT CONFERENCE RESOLUTION
FAO Audited Accounts 2012-13

THE CONFERENCE,

Having considered the report of the 150th Session of the Council, and

Having examined the 2012-13 FAO Audited Accounts and the External Auditor’s Report thereon

Adopts the Audited Accounts

Audited Accounts - FAO Commissary 2013


12. In light of the External Auditor’s unqualified opinion, the Finance Committee approved the 2013 Audited Accounts of the FAO Commissary.

Funding of After Service Medical Coverage (ASMC) Liabilities

13. The Committee considered document FC 156/5, Funding of After Service Medical Coverage (ASMC) Liabilities, which presented an analysis of options to address the funding gap of the ASMC liability, noting that its understanding and discussion of this matter was facilitated by an informal pre-session briefing.

14. The Committee:

a) recalling its previous discussions on this matter and the guidance of Council at its 149th Session, reiterated the importance of engagement by FAO Members with the Fifth Committee of the United Nations General Assembly and the International Civil Service Commission in order to achieve meaningful containment of staff costs at FAO;

b) acknowledged that this was a complex and highly technical issue that concerned the entire UN system;

c) noted the information on the change of service-provider for medical insurance with effect from 1 January 2015 and welcomed the resulting savings;

d) acknowledged FAO administration’s active involvement in the UN Common System’s search for an optimum solution to the ASMC issue and encouraged the Secretariat to continue participating, including assuming a leadership role, in the UN Working Group on this matter;

e) reiterated the financial constraints for additional funding by Member Nations; and

f) requested the Secretariat to continue in its efforts to contain the costs of medical insurance; and to report back at its next regular session when it would consider the results of the 2014 Actuarial valuation of staff related liabilities.
Budgetary Matters

Annual Report on Support Costs Expenditure and Recoveries

15. The Committee reviewed the Annual Report on Support Costs Expenditure and Recoveries covering the period from 1 June 2013 to 31 May 2014.

16. The Committee:
   a) noted that all Trust Fund projects opened during the period under review had been charged at rates which fell within the presently approved policy; and
   b) appreciated the breakdown of statistics provided on projects approved at their ceiling rates showing the type, number and volume of such projects approved at a non-standard PSC rate.

Comprehensive Financial Framework for Cost Recovery – Update

17. The Committee considered the update on the development of the Comprehensive Financial Framework for Cost Recovery (document FC 156/7), noting that its understanding and discussion of the proposal was facilitated by an informal pre-session briefing.

18. The Committee:
   a) recalled that it had endorsed the aim, assumptions and guiding principles for development of a Comprehensive Financial Framework (CFF) cost recovery model, which would provide the basis for preparing a more transparent and equitable cost recovery policy that treated extrabudgetary resources as supporting FAO’s programme of work in an integrated budget;
   b) endorsed the proposed CFF cost recovery model based on full proportional cost recovery with attributable support costs, and the new cost categories of Direct Operational Costs (DOC), Direct Support Costs (DSC), and Indirect Support Costs (ISC);
   c) noted the estimated ISC rate of 7 percent and the need to consider some flexibility in the application of the ISC rate;
   d) requested the Secretariat to prepare a new FAO cost recovery policy based on the CFF model for consideration at its next regular session. This policy should include definition of the new cost categories, criteria for implementation and clear guidelines for the flexible application of the ISC rate to ensure transparency;
   e) noted that the new policy would replace the current FAO support cost policy and the improved cost recovery uplift (ICRU); and
   f) endorsed the timeframe and implementation milestones put forward in the document and requested the Secretariat to prepare an implementation plan, with particular attention to transitional arrangements, for consideration at its next regular session.

Globally Important Agriculture Heritage System (GIAHS)


20. The Committee:
   a) recalled the decision of the 148th Session of the Council in December 2013 which endorsed the initiation of a process for the development of a draft Conference Resolution for GIAHS to be vested with formal status within the FAO framework;
   b) reaffirmed its support for the GIAHS concept; and
   c) agreed to consider the proposal for the development of a draft Conference Resolution for GIAHS to be vested with formal status on the basis of further information regarding its potential budget implications as well as its governance
arrangements which it requested the Secretariat to provide at its next regular session.

Human Resources


22. The Committee:
   a) welcomed the Progress Report presented;
   b) noted with satisfaction the progress made on the majority of human resources initiatives and encouraged the Secretariat to continue in these efforts;
   c) requested that particular attention be given to the current deployment of GRMS and iRecruitment functionality in decentralized offices, improvements to geographical representation, and on retention measures for Junior Professional Officers (JPOs) and Associate Professional Officers (APOs); and
   d) looked forward to an updated progress report at its next regular session, including information on delegations of authority and APOs and JPOs.

Recommendations and Decisions of the International Civil Service Commission (ICSC) and the United Nations Joint Staff Pension Board to the General Assembly (including Changes in the Salary Scales and Allowances)


24. The Committee:
   a) took note of the contents of the report;
   b) noted with concern that the on-going review of the compensation package by the ICSC was proceeding slowly and that the time-line for finalisation of the review at the end of 2015 would not allow the outcome to be taken into consideration by the 39th Session of the Conference in June 2015 when considering the Programme of Work and Budget 2016-17;
   c) noted that the matter of increasing the mandatory age of separation for serving staff members was currently being reviewed by the United Nations General Assembly at its 65th Session;
   d) recalling its previous discussions and the guidance of Council at its 149th Session, reiterated the importance of engagement by FAO Members with the Fifth Committee of the United Nations General Assembly and the International Civil Service Commission in order to achieve meaningful containment of staff costs at FAO; and
   e) requested that the Secretariat report back to the Committee at its next regular session on developments and progress in the Review of the Compensation Package by the ICSC and on resolutions adopted by the United Nations General Assembly related to conditions of service of staff covered by document FC 156/11.
Oversight

Status of Actions on FAO Audit Committee Recommendations

25. The Committee examined document FC 156/12, Status of Actions on FAO Audit Committee Recommendations that presented an update on progress made on implementation of the FAO Audit Committee recommendations contained in its 2013 annual report. The Committee also took note of the additional information provided by the Inspector General in response to questions from the Committee members.

26. The Committee:
   a) appreciated the efforts of the Office of the Inspector-General to harmonize the format of the report with other recommendation status reports such as the ‘Progress Report on Implementation of the External Auditor’s Recommendations’;
   b) noted the status of actions on recommendations of the FAO Audit Committee;
   c) highlighted the importance of establishing implementation deadlines for the recommendations so that they are not repeated from one year to the next; and in this regard recommended that an implementation deadline of one year be adopted by the FAO Audit Committee and this be included in its annual report;
   d) requested the Office of the Inspector-General to provide in future status reports a glossary of terms used in the reports to define the status of recommendations; and
   e) looked forward to a further update on the progress made when the Audit Committee’s 2014 annual report would be presented at the Committee’s next regular session in Spring 2015.

Status of Implementation of Internal Audit Recommendations

27. The Committee considered document FC 156/13, Status of Implementation of Internal Audit Recommendations, which summarized the progress made by the Organization in implementing recommendations made by the Office of the Inspector General, with particular emphasis on long-outstanding high-risk recommendations. The Committee also addressed the question of delegations of authority to Article XIV bodies, which it had examined at its 148th Session, and took note of the information provided by the Legal Counsel in response to questions on progress on this question.

28. The Committee:
   a) acknowledged the progress made in implementing long-outstanding audit recommendations and encouraged the Secretariat to expedite implementation of the remaining ones;
   b) requested the Inspector General to review the older outstanding recommendations and include in its annual report specific proposals to close them taking into consideration the risk associated with each of them;
   c) acknowledged the implementation by the Office of the Inspector General of enhancements to a recommendation status follow-up system using current resources; and
   d) requested that the Legal Counsel present at the Committee’s next regular session in Spring 2015, a detailed report on actions taken with regard to past recommendations to increase delegations of authority to Article XIV bodies, taking into account the differentiated nature of these bodies.

Progress Report on Implementation of the External Auditor’s Recommendations

The Committee:

a) welcomed the progress made in closing recommendations of the External Auditor and urged the Secretariat to continue in its efforts to close the remaining outstanding recommendations; and
b) looked forward to an updated Progress Report at its next regular session in 2015 and which it noted would also include the status of implementation of recommendations contained in the 2012-13 Long Form Report.

Progress Report on an Accountability and Internal Control Framework

The Committee considered document FC 156/15, Progress Report on an Accountability and Internal Control Framework.

The Committee:

a) reiterated the critical importance for the Organization to have a strong and effective accountability and internal control framework and underlined the importance of this function for FAO’s work;
b) recalled that several conclusions and recommendations of the Inspector-General and the External Auditor related to accountability and internal control, and welcomed the proactive measures being taken by the Secretariat to address them;
c) endorsed the steps being taken by the Secretariat to develop a formal Accountability Policy and an Internal Control Framework and looked forward to the promulgation of the Accountability Policy by December 2014 and of the Internal Control Framework by June 2015;
d) emphasized the need for an approach to internal control based on basic principles and the clear segregation of responsibilities and accountabilities;
e) reiterated that the timely reporting of allegations of fraud, their systematic investigation and sanctioning of proven cases of fraud are integral to accountability and internal control; and
f) requested the Secretariat to present a report on implementation of the Accountability Policy at the Spring 2015 meeting of the Finance Committee and on the Internal Control Framework at the Spring 2016 meeting of the Finance Committee.

Status of Implementation of JIU Recommendations

The Committee considered document FC 156/16, Status of Implementation of JIU Recommendations.

The Committee:

a) appreciated the overall rate of acceptance and implementation of relevant Joint Inspection Unit (JIU) recommendations by the Secretariat; and
b) requested that the next annual report to the Committee on implementation of JIU recommendations include a list of those recommendations not yet implemented.
Improved Methods of Work and Efficiency of the Finance Committee

The Multi-Year Programme of Work of the Finance Committee

35. The Committee:
   a) took note of the updated version of the Multi-Year Programme of Work (MYPOW);
   and
   b) looked forward to receiving a further update at its next regular session, and which should also reflect the decisions of the Committee at its current session.

Status of Outstanding Recommendations of the Finance Committee

36. The Committee reviewed document FC 156/18, Status of Outstanding Recommendations of the Finance Committee.

37. The Committee:
   a) took note of the status of outstanding recommendations of the Finance Committee;
   and
   b) endorsed the proposed timeframe for implementation of outstanding recommendations, except for the matter related to Article XIV Statutory Bodies for which the report should be presented to the Spring 2015 session of the Finance Committee.

Working Methods of the Finance Committee

38. The Committee emphasized the importance of receiving documents from the Secretariat in all FAO languages in accordance with the established time limits in order that the Committee has sufficient time to review documentation prior to the session.

39. The Committee requested the Secretariat to organize informal meetings of the Committee before its next regular session in Spring 2015 to review matters related to the Medium Term Plan and Programme of Work and Budget 2016-17 and the Review of Article XIV Statutory Bodies with a view to allowing them to exercise greater financial and administrative authority while remaining within the framework of FAO.

Other Matters

Date and Place of the Hundred and Fifty-seventh Session

40. The Committee was informed that the 157th Session was scheduled to be held in Rome from 9 to 13 March 2015.

Any Other Matters

Interpretation Costs

41. The Committee received information on the Organization’s policies and procedures for interpretation services and noted with satisfaction that they ensured that interpretation provided at meetings in non-FAO languages did not result in incremental costs to the Regular Programme.

Financial and Budgetary Aspects of the Second International Conference on Nutrition (ICN2)

42. The Committee requested the Secretariat to present a detailed report on the financial and budgetary aspects of ICN2 (Rome, 19 - 21 November 2014) at its next regular session in spring 2015.

Selection and Appointment of United Nations Resident Coordinators

43. The Committee looked forward to considering matters related to the selection and appointment of United Nations Resident Coordinators at a future session.
Documents for Information

- Status of Current Assessments and Arrears (doc. FC 156/INF/2)
- Audited Accounts - FAO Credit Union 2013 (doc. FC 156/INF/3)
- Reports of the Joint Inspection Unit
  - Review of Long-Term Agreements in Procurement in the United Nations System (JIU/REP/2013/1) (doc. FC 156/INF/5)
  - Selection and Appointment Process for United Nations Resident Coordinators, including Preparation, Training and Support provided for their work (JIU/REP/2013/3 (doc. FC 156/INF/6)