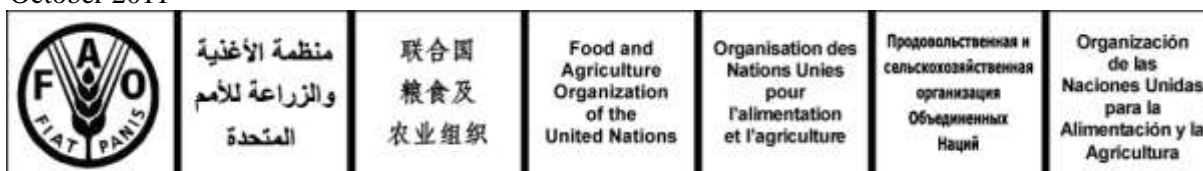


October 2011

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## COUNCIL

### Hundred and Forty-third Session

Rome, 28 November - 2 December 2011

### Report of the 140<sup>th</sup> Session of the Finance Committee Rome, 10 - 14 October 2011

#### Executive Summary

At its first regular session after the 2011 Conference, the Committee examined the financial position of the Organization and other matters under its mandate. In this report of its 140th Session, the Committee:

- Makes specific recommendations to the Council (i) urging all Members Nations of FAO to make timely and full payment of their respective assessed contributions (para. 10 a)); and (ii) on appointment of the external members of the Ethics Committee (para. 31 a)).
- Informs Council of its decisions (i) authorizing the Director-General's forecasted budgetary Chapter transfers (para.18 c)), (ii) approving the FAO Commissary 2010 Audited Accounts (para. 13); (iii) concurring with the suggested discount rates associated with the incentive scheme for prompt payment of contribution for 2012 (para. 12 a)); and (iv) endorsing proposed strengthening of the Treasury staffing structure (para. 21).
- Brings to the attention of Council its guidance to the Secretariat on the Organization's financial position, budgetary matters, Human Resources strategy, implementation of the Oracle R12/IPSAS project, the financial disclosure programme, and management of travel activities.
- Highlights to Council initiatives to improve its own methods of work.

#### Suggested action by the Council

- The Council is requested to endorse the recommendations of the Committee on timely payment of assessed contributions by Members, and on the appointment of the external members of the Ethics Committee
- The Council is requested to take note of the decisions of the Committee on budgetary Chapter transfers, the 2010 Audited Accounts of the FAO Commissary, on the incentive scheme rates, and the staffing structure of the Organization's Treasury function
- The Council is requested to endorse the Committee's guidance provided to the Secretariat on all other matters within its mandate, as well as initiatives to improve its own methods of work

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**REPORT OF THE HUNDRED AND FORTIETH SESSION OF THE  
FINANCE COMMITTEE  
10 - 14 October 2011**

**Introduction**

1. The Committee submitted to the Council the following report of its Hundred and Fortieth Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following representatives of Members were present:
  - Mr Travis Power (Australia)
  - Mr Olyntho Vieira (Brazil)
  - Mr Laurent D. Couliadiati (Burkina Faso)
  - Mr Shobhana K. Pattanayak (India)
  - Mr Hideya Yamada (Japan)
  - Ms Manar Sabah Mohammad Al-Sabah (Kuwait)
  - H.E. Miguel Ruíz-Cabañas Izquierdo (Mexico)
  - Mr Mohammed Haddad (Morocco)
  - Mr Ronald Elkhuizen (Netherlands)
  - Mr Vladimir V. Kuznetsov (Russian Federation)
  - Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
  - Ms Karen Johnson (USA)
3. The Chairperson informed the Committee that:
  - H.E. Miguel Ruíz-Cabañas Izquierdo had been designated to replace H.E. Jorge Chen Charpentier as the representative of Mexico for the remainder of its term of office
  - Ms Cecile de Mauleon Medina had been designated to replace H.E. Miguel Ruíz-Cabañas Izquierdo for part of this session
  - Mr Mohammed Haddad had been designated to replace Mr Amal Belcaïd as the representative of Morocco for this session
4. Summaries of the qualifications of H.E. Ruiz-Cabañas Izquierdo, Ms de Mauleon Medina and Mr Haddad are listed in the addendum to this report (CL 143/8 Add.1).
5. In addition, silent observers from the following Member Nations attended the 140<sup>th</sup> Session of the Committee:
  - Democratic Republic of Congo
  - San Marino
  - France
  - Pakistan
6. In adopting the agenda for its 140<sup>th</sup> Session, the Committee decided to postpone discussion of Item 8 – *Measures to Improve Implementation of the Organization’s Support Cost Policy* to its 141<sup>st</sup> Session. Furthermore, the Committee decided to consider document FC 140/INF/10 – *Review of Travel Arrangements Within the United Nations System* under Item 20 – *Any Other Matters*.

**Election of Vice-Person for 2011**

7. Mr Ronald Elkhuizen (Netherlands) was elected unanimously Vice-Chairperson until the first session of the Committee in the next calendar year.

## Monitoring Financial Position

### Financial Position of the Organization

8. The Committee reviewed document FC 140/3 – *Financial Position of the Organization*, which included the status of payments of 2011 assessments by Member Nations as of 30 June 2011, the Regular Programme cash flow forecast till 31 December 2011, the levels of short term and long term investments, information on the General Fund deficit, the value of the liability of the Organization for Staff Related Schemes and the unfunded portion at 30 June 2011, and Technical Cooperation Programme (TCP) expenditure as at 30 June 2011.

9. The Committee noted with concern the projected rising level of the General Fund deficit, due principally to unbudgeted charges for Staff Related Schemes. In this regard the Committee was mindful of the fact that many organizations of the United Nations system face the same problem that relates to the need to comply with the IPSAS, as well as the urgent need to find a solution to this issue.

10. **The Committee:**

- a) **while welcoming the improvement in timeliness of payment of contributions by Members during the first half of the year and the Organization's improved liquidity position and low level of arrears, which was at its lowest levels in recent decades, urged all Member Nations to make timely and full payment of their respective assessed contributions to ensure the Organization could meet the operating cash requirements for the adequate delivery of its Programme of Work**
- b) **looked forward to receiving at its May 2012 session the annual document on staff-related liabilities, based on the latest actuarial valuation, and including alternative long-term strategies and options for funding staff-related liabilities, considering also measures adopted by other UN agencies**
- c) **requested that information on the Organization's investment policies be included in the annual Report on Investments to be reviewed at its session in May 2012**

### Incentive Scheme for Prompt Payment of Contributions

11. The Committee took note of document FC 140/4 - *Incentive Scheme for Prompt Payment of Contributions*, and noted that positive discount rates under the Incentive Scheme had been reinstated on qualifying contributions in 2009 following the period 2004-2008 when discount rates had been set at zero.

12. **The Committee:**

- a) **concurred with the rates of 0.04 per cent for USD and 0.21 percent for Euro assessments suggested by the Director-General for use in determining the amount of discount for each Member Nation that had paid its contributions in full before 31 March 2011. The discount earned would be credited against 2012 contributions**
- b) **requested that the Secretariat undertake an analysis of the political and financial effectiveness of the incentive scheme to encourage prompt payment of contributions during the period 2009 to 2013 and present the results of this analysis to the Spring session of the Committee in 2014**
- c) **requested the Secretariat to review possible measures to expedite liquidation of arrears and to report thereon to its Spring session in 2012**

### Audited Accounts - FAO Commissary 2010

13. The Committee reviewed document FC 140/5 *Audited Accounts – FAO Commissary 2010*, and took note of the audited accounts and the financial position of the Commissary for the period. **In light of the External Auditor's unqualified opinion, the Committee approved the Audited Accounts.**

## Budgetary Matters

### Annual Report on the Special Fund for Emergency and Rehabilitation Activities (and Governance and Management of the Fund)

14. The Committee welcomed the information provided in the Annual Report on the Special Fund for Emergency and Rehabilitation (SFERA) and acknowledged the work carried out to provide detailed financial information on the Fund's use, as well as of its governance and management mechanisms. The Committee acknowledged the nature of partnership agreements between FAO and other United Nations agencies.

15. **The Committee:**

- a) **noted the performance of the Special Fund for Emergency and Rehabilitation Activities over the period July 2010 to June 2011 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 of livelihoods and contributing to saving lives**
- b) **acknowledged the governance and management of the Fund which had enabled the SFERA to be an efficient and effective instrument to support FAO's emergency and rehabilitation programme**
- c) **agreed to the proposal by the External Auditor for him to follow-up on his 2008-09 Long Form Report recommendation<sup>1</sup> relating to the formulation of guidelines for the SFERA, and to report thereon to the Committee at its session in May 2012**
- d) **appealed for the expansion of interaction and partnership where possible and feasible with other UN agencies and international entities to achieve better results and efficiencies**

### Annual Report on Support Costs Expenditure and Recoveries

16. The Committee reviewed the *Annual Report on Support Costs Expenditure and Recoveries* and took note of the implementation of the policy on support costs during the period from 1 June 2010 through 31 May 2011. Of the 591 Trust Fund projects FAO had opened during this period, all had been charged at rates which fell within the presently approved policy and 88.3 percent had been approved at their ceiling rates. The Committee further noted that, as reported in the 2008-09 Programme Implementation Report, the under-recovery of support costs stood at USD 37 million<sup>2</sup>, but that the gap between recoveries and administrative and operational support costs was decreasing over time.

17. **The Committee looked forward to reviewing measures to improve implementation of the Organization's Support Cost Policy at its next session in November 2011.**

### Programme and Budgetary Transfers in the 2010-11 Biennium

18. The Committee reviewed the document Programme and Budgetary Transfers in the 2010-11 Biennium and:

- a) **took note of the forecasted underspending of USD 6.0 million against the 2010-11 biennial appropriation, which, along with any deferred one-time IPA investment costs, would be carried over to 2012-13 for the full implementation of the IPA, as authorized by Conference Resolution 5/2011**
- b) **recalled that, in line with current practice, any unspent balances in the Technical Cooperation Programme (Chapter 15), Capital Expenditure (Chapter 17) and Security Expenditure (Chapter 18) will be transferred to the forthcoming biennium**

<sup>1</sup> document C 2011/5, para. 175

<sup>2</sup> C 2011/8, paragraphs 313 and 314

- c) **authorized the forecasted budgetary Chapter transfers from budgetary Chapters 1, 2, 3, 4, 5, 7, 13, and 14 in favour of Chapters 6, 8, 9, 10, 11 and 12, and looked forward to the final 2010-11 budgetary performance report at its May 2012 session**

19. The Committee appreciated that the forecasted underspending of USD 6.0 million was within one percent of the 2010-11 biennial appropriation and set this as a benchmark for future budgetary performance.

## **Planning of Financial and Budgetary Resources**

### **Staffing of the Treasury Function**

20. The Committee reviewed the proposal to reinforce the staffing structure of the Finance Division's Treasury function in the area of risk management, as recommended by the Advisory Committee on Investments at its 37<sup>th</sup> Session in May 2011. The Committee expressed its concern about the proposal to enlarge the staffing structure and requested the Secretariat to provide additional justification for this increase.

21. After considering further information provided by the Secretariat in an addendum (document FC 140/10 Add.1), and while making clear this would not establish a precedent, the Committee:

- a) **approved the proposal to reinforce the staffing of the Treasury function in Finance Division through the addition of one professional officer at the P-4 grade, charging the related costs to investment income, and looked forward to receiving the report of implementation of this decision at a subsequent session.**

## **Human Resources**

### **Implementation of Corporate Human Resources Strategy**

22. The Committee commended the report presented on the implementation of the corporate human resources strategy and welcomed the progress that had been achieved in the delivery of major initiatives within the framework of the HR Strategic Framework and Action Plan 2010-11, such as the Performance Evaluation and Management System (PEMS) and the HR Management Information Reporting System (HR-MIR), the introduction of a new Headquarters organizational structure, as well as the Junior Professional and Internship Programmes.

23. In considering the above, the Committee:

- a) **recognized the fundamental role of HR management within a knowledge-based organization and the significance of transforming the HR function into a more effective strategic partner**
- b) **noted the status of implementation of on-going HR initiatives outlined in the HR Strategic Framework and urged that these be completed in a timely manner, whilst acknowledging Management's commitment to progress with completed activities to realize the full benefit of HR renewal**
- c) **recognized the importance of an effective and more mandatory mobility scheme, cautioned about financial implications, and recommended that its implementation be pursued**
- d) **underscored the need to reduce further the timeframe on recruitment;**
- e) **while recognizing that merit was the primary consideration in the selection criteria, encouraged the Secretariat to recruit nationals of non-represented or under-represented countries, with a view to achieving gender and geographic balance among the Organization's workforce**
- f) **noted that measures being taken to develop a rewards, recognition and sanctions scheme that would be underpinned by PEMS had been deferred in order to take into consideration the work being undertaken by the International Civil Service**



Commission in this respect, and **urged** the Secretariat to continue this work and report thereon at its Spring session in 2012

- g) **further underscored the importance of introducing a clear policy on career development**
- h) **stressed the importance of introducing a corporate competency framework aimed at enhancing the Organization's capacity to mobilize its HR capabilities and the impact that such a framework would have in terms of the recruitment, evaluation and development of staff**
- i) **reiterated the importance of being regularly apprised of the implementation of HR initiatives and activities under the Regular Programme and in response to the Immediate Plan of Action. In this respect, the Committee requested that an update on the delivery of the on-going initiatives and activities elicited in the 2010-11 Action Plan be incorporated in the 2012-13 HR Strategic Framework and Action Plan to be presented at its session in May 2012**

## **Administrative and Information Systems Framework**

### **Progress Report on Implementation of the Oracle R12/IPSAS Project**

24. The Committee reviewed document FC140/12 which provided an update on progress made on the Oracle R12/IPSAS Project for the period April to September 2011, and plans for the period October 2011 to April 2012.

25. The Committee was informed that the scope of work to be delivered by the project had now been finalised following completion of the High Level Design phase of the project. The Committee emphasised its concerns that changes to scope should not be considered where they increased the risk of not achieving the primary project objective of IPSAS compliant financial statements by 2013.

26. The Secretariat noted that cost efficiency and value for money were amongst the key drivers of the high level design phase and that the relevant benefits would be described and quantified in detail upon completion of the detailed design which was ongoing. The outcome of this analysis would be reported to the Committee at its session in May 2012.

27. Based on its review of the information presented, the Committee:

- a) **emphasized the importance of ensuring that the core project objectives of IPSAS compliance, FAS replacement and the R12 upgrade were delivered by the planned project target dates and within the reported budget estimates**
- b) **noted the key risks to the project presented in the document, in particular those relating to change management in Decentralized Offices, and directed the project to proceed with the mitigating actions identified to address these risks**
- c) **requested the Secretariat to include in its next report to the Committee more information on the benefits of the Oracle R12/IPSAS effort, and how these contributed to the strategic vision of the Organization**
- d) **requested the Secretariat to provide details of cost efficiencies and value for money to be delivered by the project at its session in May 2012**

### **Membership of the Ethics Committee**

28. The Committee reviewed document FC140/13 - *Membership of the Ethics Committee*, as well as the Addendum to document FC140/13, containing an extract of the Report of the 93<sup>rd</sup> Session of the Committee on Constitutional and Legal Matters (CCLM) of September 2011 on the same subject.

29. The Committee agreed to recommend the following three candidates for approval by the Council:

- a) Mr Ngonlardje Kabra Mbaidjol (Chad)
- b) Ms Anne Marie Taylor (Canada, France, USA)

c) Mr José Zalaquett (Chile)

30. The Committee noted that the establishment of the Ethics Committee was recent and suggested that the procedures be re-visited jointly by the Chairpersons of the Finance Committee and the CCLM respectively, with a view to agreeing on a division of labour, and to report thereon to the Council in June 2012. In that connection, a range of observations were made on issues relating to a need of a clear definition of the procedure for nomination of the external candidates, as well as the selection criteria, including the respective roles of the Finance Committee and the CCLM in the nomination process.

31. **The Committee:**

- a) **recommended that the appointment of Mr Ngonlardje Kabra Mbaidjol, Ms Anne Marie Taylor and Mr José Zalaquett as external members of the Ethics Committee be approved by the Council**
- b) **agreed that the selection procedure and criteria for the nomination of the external candidates to the Ethics Committee be revisited, as part of a joint exercise with the CCLM**

### **Progress on the Financial Disclosure Programme**

32. The Committee considered the progress achieved and next steps in the implementation of the Financial Disclosure Programme. It noted with satisfaction that the pilot phase of the Programme was being implemented in accordance with the time chart foreseen under the roadmap which had been reviewed by the Committee at its 135th Session in October 2010. The roadmap foresees finalization of the pilot project in December 2011, with full rollout of the programme planned for early 2012. The Committee noted that the Financial Disclosure Programme would cover approximately 250 staff members in Headquarters, and up to approximately 600 staff members across the Organization. This included all staff members at grade D-1 and above, as well as other staff members who occupy sensitive positions such as those related to procurement and investment of the Organization's assets.

33. **The Committee:**

- a) **encouraged the Secretariat to finalize the pilot exercise by January 2012, with further improvement in the questionnaire, in order to launch the Financial Disclosure Programme and present it for review at a future session of the Committee**

### **Oversight**

#### **Progress Report on Implementation of the External Auditor's Recommendations**

34. The Committee reviewed the progress made in implementing the recommendations of the External Auditor, noting that in accordance with standard practice, the Progress Report included the comments of the External Auditor.

35. The External Auditor expressed his general satisfaction with progress made on the recommendations and noted that a full update on the status of implementation of all recommendations would be provided in his Long Form Report on the 2010-11 Accounts.

36. In response to questions and observations on specific recommendations in the document, the Committee noted that the issue of staff related liabilities would be discussed by the Committee at its next regular session in May 2012.

37. In discussing the format and content of the Progress Report, the Committee:

- a) **requested that a summary table of the status of recommendations and target dates for implementation be included in future versions of the report**
- b) **looked forward to an updated progress report at its next regular session**
- c) **requested a report on Host Country Agreements for its session in May 2012**

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

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

38. The Committee noted that the current version of its Multi-Year Programme of Work (MYPOW) for 2010-13 presented a good overview of its responsibilities and objectives. It further noted that the Committee's WFP programme of work was contained in a separate document. Recognizing that its MYPOW was a living document, the Committee resolved to:

- a) **enhance its MYPOW by the addition of a road map outlining when specific issues would be considered by the Committee during the period in question. The road map would contain topical matters, including those discussed at the 140<sup>th</sup> Session**
- b) **consolidate its FAO and WFP MYPOWs into a single document**
- c) **reconsider its revised MYPOW at the May 2012 session of the Committee**

### **Status of Outstanding Recommendations of the Finance Committee**

39. **The Committee:**

- a) **welcomed the consolidated paper on the status of its outstanding recommendations**
- b) **noted the linkage between the paper and its MYPOW**
- c) **requested an updated version of the document be prepared for consideration at the start of each regular session**

### **Working Methods of the Finance Committee**

40. The Committee noted the importance of reviewing continually its methods of work in order to achieve its overarching goals and objectives within the context of Governance Reform of FAO. It discussed a number of ideas in this regard, including inter-sessional communication, informal briefings from the Secretariat, strengthening of its MYPOW, and use of audio-visual introductions to core agenda items. The Committee:

- a) **requested the Secretariat to arrange an annual informal seminar, with focus on historical and technical information relating to key topics which fall under the mandate of the Committee**
- b) **noting information provided by the Independent Chairperson of Council on modalities of field visits by Members of Council, resolved to consider similar visits in the future by Members of the Committee aimed at enhancing and enriching the Committee's discussions, and informing better its recommendations to Council**
- c) **agreed to consider introduction of tools and mechanisms for informal, inter-sessional communication amongst members of the Committee**
- d) **agreed to discuss at its next special session at November 2011 the possibility of the Chairperson and/or Vice-Chairperson to participate in Regional Conferences**

## **Other Matters**

### **Date and Place of the Hundred and Forty-first Session**

41. The Committee was informed that the 141<sup>st</sup> Session was scheduled to be held in Rome from 2 to 4 November 2011.

### **Any Other Matters**

#### **- Review of travel arrangements within the United Nations System (JIU/REP/2010/2)**

42. The Committee reviewed JIU report JIU/REP/2010/2 and additional information on implementation of its recommendations by FAO.

43. The Committee:
- a) **welcomed** FAO's efforts to achieve cost and efficiency savings in the travel budget
  - b) **expressed** satisfaction on implementation of measures outlined at the Inter-Agency Travel Network (IATN) meeting of October 2011 and on the Secretariat's Preferred Hotel Programme being developed in conjunction with other Rome-based agencies
  - c) **underlined** the importance of implementation of the upgrade of the Oracle Enterprise Resource Planning (ERP) system and implementation of IPSAS at FAO in order to obtain enhanced reporting on travel related activities
  - d) **requested** regular reporting on travel expenditure and progress in efforts to find efficiencies, as outlined in recommendation 9 of the JIU Report

## ANNEX I

### Documents for information

- Status of Current Assessments and Arrears (doc. FC 140/INF/2)
- Audited Accounts - FAO Credit Union 2010 (doc. FC 140/INF/3)
- Status of Integrity and Fiduciary Actions (doc. FC 140/INF/4)
- European Commission for the Control of Foot-and-Mouth Disease – Budget for 2012-13 (doc. FC 140/INF/5)
- Animal Production and Health Commission for Asia and the Pacific (APHCA) – Budget for 2010 (doc. FC 140/INF/6)
- Budgets of the Desert Locust Commissions for 2012-13 (doc. FC 140/INF/7)
- 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 140/INF/8)
- Reports of the UN Joint Inspection Unit
  - Environmental Profile of the United Nations System Organizations: Review of their in-house environmental management policies and practices (JIU/REP/2010/1) (doc. FC 140/INF/9)