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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 | Organización de las Naciones Unidas para la Agricultura y la Alimentación

COUNCIL

Hundred-and-fifteenth Session

Rome, 23 - 28 November 1998

REPORT OF THE EIGHTY-NINTH SESSION OF THE FINANCE COMMITTEE, 4 - 8 May 1998

Table of Contents

W8733/E

ANNEX I

PROGRAMME AND BUDGETARY TRANSFERS IN THE 1996-97 BIENNIUM AND ANNUAL REPORT OF BUDGETARY PERFORMANCE TO MEMBER NATIONS

ANNEX II

COMPENSATION PLAN RESERVE FUND - SUMMARY OF INVESTMENTS TO 31 DECEMBER 1997

ANNEX III

SEPARATION PAYMENTS SCHEME - SUMMARY OF INVESTMENTS TO 31 DECEMBER 1997

ANNEX IV

PROPOSED REVISION TO THE FORMAT OF THE EXTERNAL AUDIT OPINION

MATTERS REQUIRING ATTENTION BY THE COUNCIL

Report of the Eighty-ninth Session of the Finance Committee
Matters requiring discussion and/or decision

	Paragraphs
Budgetary Matters	
Programme and Budgetary Transfers in the 1996-97 Biennium and Annual Report on Budgetary Performance to Member Nations	8 - 13
Financial Matters	
Financial Position of the Organization - Financial Position as at 28 February 1998	21 - 29
Proposed Revision to the Format of the External Audit Opinion	48 and Annex IV

REPORT OF THE EIGHTY-NINTH SESSION OF THE FINANCE COMMITTEE

4 - 8 May 1998

INTRODUCTION

1. The Committee submitted to the Council the following report of its Eighty-ninth Session.

2. The following representatives were present:

Chairman:	Mr Julian A. Thomas (South Africa)
Vice-Chairman:	Mr Luigi M. Fontana-Giusti (Italy)
	Mr Roberto O. Villambrosa (Argentina)
	Mr Kalarickal P. Fabian (India)
	Mr Horacio Maltez (Panama)
	Mr Lubomir Micek (Slovak Republic)
	Ms Ekhlas Fouad Eltom (Sudan)
	Ms Laurie J. Tracy (United States of America)

3. The Chairman informed the Committee that Mr Moomi Te Avelela Samba (Democratic Republic of the Congo) would regretfully be unable to attend this session.

4. Mr Sjarifudin Baharsjah, the Independent Chairman of the Council, attended for part of the session.

5. Mr Luigi M. Fontana-Giusti (Italy) was elected Vice-Chairman for 1998 by unanimous decision.

6. The Finance Committee observed a moment of silence to honour the memory of Ambassador Carlos di Mottola Balestra (Costa Rica), Chairman of the Finance Committee from 1989 to 1993, who had passed away in February 1998.

7. The Committee unanimously expressed dissatisfaction at the late distribution of documentation which had a negative impact on their ability to prepare adequately for the session.

BUDGETARY MATTERS

PROGRAMME AND BUDGETARY TRANSFERS IN THE 1996-97 BIENNIUM AND ANNUAL REPORT ON BUDGETARY PERFORMANCE TO MEMBER NATIONS

8. The Committee reviewed the Director-General's Thirty-first Annual Report of Budgetary Performance to Member Nations. The report, submitted for discussion, provided information on 1996-97 expenditure and summarized the budgetary aspects of the 1996-97 outturn, including advice of the final amount of the programme and budgetary transfers for the biennium.

9. The Committee noted that the overall budgetary outturn for 1996-97 had resulted in a total delivery of US$652.7 million, which was US$2.7 million more than the approved budget of US$650 million. However, this delivery included US$4.1 million of additional expenditure that it had been necessary to record in the 1996-97 accounts as a consequence of a retroactive decision by the International Labour Organisation Administrative Tribunal made in January 1998. This liability had arisen on 28 January 1998 and could not have been anticipated.

10. It also noted that the results included the impact of the US$7.5 million deficit on support costs which the Director-General had planned to absorb from within the Regular Programme appropriation in order to avoid a deterioration of the overall accumulated deficit under the General Fund.

11. The Committee was pleased to note that the effective budgetary transfers required were within the limits already approved by the Finance Committee at its September 1997 session and that the results were largely as forecast at its previous session.

12. It acknowledged the complexity of financial management in 1996-97 with the late approval of the revised budget in May 1996, the major restructuring undertaken and consequent unbudgeted costs incurred in an environment of declining resources. The Committee regretted that this had resulted in the transfer of resources from the Technical and Economic Programmes (Chapter 2), but recognized that this had been anticipated and noted by the Joint Meeting of the Committees in May 1996 when it had approved the revised 1996-97 budget.

13. The Committee endorsed the report (Annex I) for transmission to the Council.

SPECIAL RESERVE ACCOUNT

14. The Secretariat in document FC 89/13 asked the Committee to agree in principle to use up to US$5.0 million or such lesser amount as may prove necessary, from the Special Reserve Account (SRA).

15. It recalled that Conference Resolution 13/81, Clause 1(c) authorized the Director-General to use the funds in the SRA, subject to the prior review and approval by the Programme and Finance Committees to finance unbudgeted extra costs of approved programmes due to unforeseen inflationary trends, to the extent that such costs cannot be met though budgetary savings without impairing the implementation of such programmes.

16. This need arose because of an International Labour Organisation Administrative Tribunal ruling in January 1998, reinstating the language factor of general service staff, with retroactive application to November 1995. This had had the impact of increasing the salary scales of general

service staff by four percent in 1998-99 and resulted in back pay liability to general service staff of US$4.5 million. The Committee noted that the timing of this decision was such that the Programme of Work and Budget 1998-99 could not have included provision for this cost increase, with the effect that general service staff costs in the 1998-99 Programme of Work and Budget were under-budgeted by US$5.1 million.

17. The Committee noted the Director-General's intention to absorb this unbudgeted cost during the biennium to the extent that it can be accomplished without impairing the implementation of the approved programmes.

18. All but one member were of the view that the requested use of the SRA fell within the interpretation of the relevant Conference resolutions and that the Programme of Work and Budget 1998-99 already reflected a significant real reduction, with the result that the Organization had only limited capacity to absorb unbudgeted extra costs. These members also agreed that an early approval in principle from the Joint Committees would facilitate planning and programme implementation during the biennium. The majority of members were of the view that the Joint Meeting should approve the utilization of funds from the SRA to cover up to US$5 million or such lesser amount as may prove necessary.

19. One member disagreed. In her view the rationale offered by the secretariat for use of the SRA was inconsistent with the approved purposes outlined in Conference Resolution 13/81. She noted that it was too early to determine whether such costs can be absorbed. She also suggested that in her view using the SRA in this manner appeared to be an increase in the budget level the Conference had previously approved.

20. The Committee agreed to take the item forward to the Joint Committee without a consensus position at this stage, and invited the Chairman to summarize the position of the Committee at the Joint Meeting.

FINANCIAL MATTERS

FINANCIAL POSITION AS AT 28 FEBRUARY 1998

21. The Committee considered the financial position of the Organization at 4 May 1998 and noted that 44.12 percent of current assessments had been received. Forty member nations had paid their current assessments in full, while a further 29 members had made partial payment, whereas 106 had made no payment as yet towards their 1998 assessment. Despite the relatively favourable rate of receipt of contributions, the Committee expressed concern regarding the possibility of having to take recourse to borrowing later in the year. Accordingly, the Committee renewed its appeal to all member nations with contributions outstanding to pay their assessed contributions and arrears in full as soon as possible.

Expenditure and Outstanding Obligations incurred as at 28 February against the 1998-99 Budget

22. The Committee noted the status of expenditure and outstanding obligations for the first two months of the Programme of Work of 1998-99, excluding Technical Cooperation Programme (Chapter IV), as follows:

	28.2.1998		29.2.1996
	US$000	US$000	US$000
Total Programme of Work (as per Conference Resolution 7/97		650 000	650 000
less:			
Technical Cooperation Programme Appropriation		89 447	87 704
		560 553	562 296
Expenditure to 28 February 1998	37 869		36 030
Outstanding Obligations at 28 February 1998	174 953		148 121
Expenditure and Obligations sub-total		212 822	184 151
Balance at 28 February 1998 available for further obligations		347 731	378 145

23. The Committee noted the position of the Technical Cooperation Programme (TCP) at 28 February 1998 as follows:

	28.2.1998	29.2.1996
	US$000	US$000
Appropriation (as per Conference Resolution 7/97)	89 447	87 704
Funds set aside for approved projects	2 364	3 465
Balance of appropriation available	87 083	84 239

The Status of Working Capital fund and Special Reserve Account

Working Capital Fund

24. The Committee was informed that the authorised level of the Working Capital fund was US$25 million. The amount paid up was US$23.7 million, leaving US$1.6 million outstanding. The total transfers to the General Fund as at 28 February 1998 amounted to US$23.7 million

representing the advance of moneys on a reimbursable basis in order to finance budgetary expenditures pending receipt of contributions to the budget.

Special Reserve Account

25. The Committee noted that the authorised level of the Special Reserve Account was set by Conference Resolution 13/81 at five percent of the effective working budget for the subsequent biennium. In the first two months of 1998, US$0.01 million of related special assessments were received leaving an outstanding balance of US$10.9 million at 28 February 1998. In the same period, net gains on exchange of $0.6 million were realized. Furthermore, US$32 million advanced in 1997 was reimbursed from the General Fund in February 1998. Therefore, the Special Reserve Account balance at 28 February 1998 was US$32.6 million.

1998 cashflow forecast

26. The Committee was advised that the 1998 cashflow forecast assumed full spending of the net 1998-99 Programme of Work, excluding TCP. The Committee was informed that the Special Reserve Account and Working Capital Fund were reimbursed US$32 million in February and US$23.7 million in April respectively. However, from June, it is expected that funds will have to be advanced to the General Fund to finance budgetary expenditure pending receipt of contributions.

Status of Trust Fund delivery as at 28 February 1998

27. The Committee noted the status of the Trust Fund delivery as follows:

	Two months to 28/2/98 US$ millions	Two months to 28/2/97 US$ millions
Delivery including commitments	68.3	47.2
Percentage of annual budget spent/committed	35%	28%
Project servicing cost as percentage of expenditure	9.9%	10.9%
Delivery by division:		
TCO:	83%	72%
Others	17%	28%
	100%	100%

28. Balance sheet information:

	28/2/98 US$ millions		28/2/97 US$ millions	
Fund balance	156.7		153.0	
Represented by:				
Cash and Investments		181.3		170.6
Outstanding obligations		(20.8)		(16.0)
Others		(3.8)		(1.6)
		156.7		153.0
Terminal Payments Fund balance		1.6		5.4

Status of UNDP delivery as at 28 February 1998

29. The Committee noted the UNDP delivery, including the project servicing costs for the FAO/UNDP Programme, as follows:

	28/2/98 US$ millions	28/2/97 US$ millions
Disbursements	2.6	4.1
Commitments	6.5	5.8
Total	9.1	9.9
Project Servicing/Administrative and Operational Services (AOS) Costs	0.3	0.3

OUTTURN FOR THE 1996-97 BIENNIUM

Regular Programme Appropriations

30. The Committee was informed of the outturn of the 1996-97 biennium as follows (all figures expressed in US$ millions):

CHAPTER	Original Budget	Transfers	Modified Budget	Expenditure	Deferred Income	Unutilised Balance
1 General Policy and Direction	46.2	2.9	49.1	48.8	-	0.3
2 Technical and Economic Programmes	298.8	(9.1)	289.7	286.4	-	3.3
3 Development Support Programmes	113.5	(4.2)	109.3	110.8	-	1.5
4 Technical Cooperation Programme	87.6	-	87.6	37.4	50.2[1]	-
5 Support Services	63.5	4.1	67.6	67.5	-	0.1
6 Common Services	39.8	6.3	46.1	46.0	-	0.1
7 Contingencies	0.6	-	0.6	-	-	0.6
TOTAL EFFECTIVE WORKING BUDGET	650.0	-	650.0	596.9	50.2	2.9
8 Transfer to Tax Equalisation Fund	90.8	(90.8)	-	-	-	-
Currency variance	-	-	-	(1.5)	-	1.5
TOTAL APPROPRIATIONS (GROSS)	740.8	(90.8)	650.0	595.4	50.2	4.4

GENERAL AND RELATED FUNDS

31. The Committee noted the income and expenditure of the General and Related Funds for the 1996/97 biennium, as reflected in the accounts submitted to the External Auditor, as summarized below:

	1996-97
INCOME[2]	(US$ millions)
Assessment on Member Nations	632.8
Voluntary contributions	32.1
Funds received under inter-organisational arrangement	16.3
Jointly financed activities	25.3
Services rendered	5.6

[1] Unutilised appropriations at the close of the financial period are cancelled, except for the Technical Cooperation Programme (TCP) appropriation which remains available for obligations during the financial period following that for which the funds were voted.

[2] Income reflects increases in net assets as a result of contributions, service agreements, returns on investments, exchange rate gains and revisions in asset values.

Miscellaneous	53.3		
	765.4		
EXPENDITURE[3]			
Regular Programme	729.9		
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	35.5		
Transfer of Support Costs balance	1.9		
Provision for Staff Related Schemes	(25.0)		
Provision for contributions no longer required	58.7		
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	71.1		
Net transfers from Working Capital Fund	0.7		
Net transfer from Special Reserve Account	1.2		
Fund balances, beginning of period	(70.6)		
FUND BALANCES, END OF PERIOD			2.4
FUND BALANCES, END OF PERIOD			
General Fund		2.9	
Publications Revolving Fund		(0.5)	
		2.4	

32. In connection with the above accounts which have been submitted to the External Auditor, the Committee was advised that in order to follow better the applicable accounting standards the presentation of the accounts of the Organization had been changed as follows:

a. Income and expenditures for support costs were now reported as transactions of the General and Related Funds. Specifically, income was shown under the caption Voluntary Contributions and Funds Received under Inter-organizational Arrangement while expenditure was included under the caption Regular Programme. Previously this income and expenditure was reported as transactions of Trust and UNDP Funds and as movements in reserves of the General and Related Funds. The support cost balances brought forward from 1994/95 of US$1.9 million were reported above as a transfer to the General Fund. The net effect of these changes was to increase the General and Related Funds Balance by US$1.9 million.
b. Income earned on investments earmarked for Staff Related Schemes (Separation Payments and Compensation Payments) was reported under the caption Miscellaneous Income rather than as an increase in the respective fund balances. Liabilities of the Staff Related Schemes represent the actuarial liability rather than the book value of the earmarked investments. The reduction in the respective balances was reported as Miscellaneous Income of the General and Related Funds.

[3] Regular Programme expenditures include US$595.4 million in respect of the 1996-97 appropriation (see table in para. 30); US$44.4 million in respect of the 1994-95 TCP appropriation; US$25.3 million in respect of jointly financed activities; US$6.0 million in respect of services rendered; US$56.5 million in respect of support costs and US$2.3 million in respect of the Publications Revolving Fund.

The net effect of these changes was to increase the General Fund Balance by US$25 million. The above statements reflected a proposal to accelerate the amortization of the unaccrued liability for After Service Medial Coverage, consideration of which the Committee decided to defer to its September 1998 session. Accordingly, the above statements will be adjusted to reflect this decision.

Working Capital Fund

33. The Committee was informed that Working Capital Fund movements for the biennium were as follows:

	US$ millions
At 1 January 1996	0.7
Receipts from Member Nations	-
Net Transfers to General Fund	(0.7)
At 31 December 1997	-

34. The authorized level of the Working Capital Fund was US$25 million. The amount paid up was US$23.7 million, leaving US$1.6 million outstanding. The amount transferred to the General Fund represented an advance of moneys on a reimbursable basis in order to finance budgetary expenditures pending receipt of contributions to the budget. The total of the advances outstanding at 31 December 1997 was US$23.7 million.

Special Reserve Account

35. The Committee noted that the Special Reserve Account movements for the biennium were as follows:

		US$ millions
At 1 January 1996		0.7
Receipts from Member Nations		0.5
Net Transfers to General Fund	(12.0)	
Exchange differences on translation of foreign currencies	9.3	
Currency variance on staff standard costs	1.5	
		(1.2)
At 31 December 1997		-

36. The authorised level of the Special Reserve Account was set by Conference Resolution 13/81 at five percent of the effective working budget for the subsequent biennium. The amount of the related special assessments unpaid at 31 December 1997 amounted to US$11 million. The amount transferred to the General Fund represented an advance of moneys on a reimbursable basis in order to finance budgetary expenditures pending receipt of contributions to the budget. The total of the advances outstanding at 31 December 1997 was US$32 million.

REGULAR PROGRAMME AND TRUST FUNDS

37. The Committee noted the arrangements made for the investments of funds in connection with the Regular Programme and Trust Funds.

38. In connection with the management of the investment portfolio, the Committee was advised that borrowing decisions would be subjected to more explicit cost comparisons between the cost of borrowing and the cost of short-term drawdowns of investments. The Committee was also advised that at its next session the secretariat would brief the Committee on FAO investment management practices.

- Regular Programme

39. The summary of investments held for the Regular Programme at 28 February 1998 was as follows:

TABLE 1 Regular Programme - Fixed-term Deposits at 28 February 1998

Bank	Principal - US$	Placement Date	Maturity Date	Interest Rate %
HYPObank	25 000 000.00	30 Jan 98	2 Mar 98	5.50
Rolobanca 1473	30 000 000.00	24 Feb 98	1 Apr 98	5.53
Total	55 000 000.00			

TABLE 2 Regular Programme - Call Accounts at 2 February 1998

Bank	Balance - US$
Bankers Trust Co.	2 285 000.00
Chase Manhattan Bank, N.A.	11 724 723.00

- Trust Funds

40. The summary of investments held for the Trust Funds at 28 February 1998 was as follows:

TABLE 3 Trust Funds - Fixed-term Deposits at 28 February 1998

Bank	Principal - US$	Placement Date	Maturity Date	Interest Rate %
Rabobank	20 000 000.00	08 Aug 97	09 Mar 98	5.75000
Banca Commerciale Italiana	10 000 000.00	08 Aug 97	08 Apr 98	5.78000
Banque Bruxelles Lambert	10 000 000.00	25 Aug 97	27 Apr 98	5.78125
Toronto Dominion Bank	15 000 000.00	18 Sep 97	18 May 98	5.78125
Hypobank	10 000 000.00	19 Dec 97	19 Mar 98	5.81250
Lloyds Bank	5 000 000.00	12 Jan 98	12 May 98	5.56250
Lloyds Bank	20 000 000.00	12 Jan 98	12 Jun 98	5.56250
Lloyds Bank	5 000000.00	12 Jan 98	13 Jul 98	5.56250
Bank of America	10 000 000.00	20 Jan 98	20 Jul 98	5.50000
Dresdner Bank	5 000 000.00	6 Feb 98	10 Jul 98	5.50000
Dresdner Bank	20 000 000.00	6 Feb 98	10 Aug 98	5.50000
Dresdner Bank	5 000 000.00	6 Feb 98	10 Sep 98	5.50000
Rolo Banca 1473	15 000 000.00	24 Feb 98	24 Sep 98	5.53000
Rolo Banca 1473	5 000 000.00	24 Feb 98	26 Oct 98	5.53000
Total	155 000 000.00			

TABLE 4 Trust Funds - Call Account at 28 February 1998

Bank	Saudi Riyals	Equivalent in US$
Saudi International Bank	159 319.89	42 485.30

COMPENSATION PLAN RESERVE FUND

– General

41. The Committee noted the arrangements made for the investments of funds in connection with the Compensation Plan Reserve Fund and the Separation Payments Scheme.

– Compensation Plan Reserve Fund

42. The summary of investments held for the Fund at 31 December 1997 is shown in Annex II.

43. The Committee noted that the balance of the Fund in accordance with the terms of the funding arrangements amounted to US$41 863 570 on 31 December 1997 and noted investments held for the Fund at that date.

SEPARATION PAYMENTS SCHEME

44. The summary of investments held for the Scheme at 31 December 1997 is shown in Annex III.

45. The Committee noted that the balance of the scheme in accordance with the funding arrangements amounted to US$109 056 363 on 31 December 1997 and noted investments held for the Fund at that date.

ANNUAL REVIEW OF THE INVESTMENTS OF THE FAO RESERVE FUNDS BY THE UNITED NATIONS INVESTMENTS COMMITTEE

46. The Committee took note of the information contained in document FC 89/4c(iv) and endorsed the proposal in principle. The Committee was advised that a more detailed paper dealing with investment policy and including necessary changes to the Financial Regulations of the Organization would be submitted to the Finance Committee at its September Session.

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

47. The Committee noted with appreciation the actions taken to address the External Auditor's recommendations. The Committee was informed that the next round of recommendations from the External Auditor following the 1996-97 biennium audit would be presented at its September 1998 session. The External Auditor's report would cover the follow- up of any previous recommendations outstanding.

PROPOSED REVISION TO THE FORMAT OF THE EXTERNAL AUDIT OPINION

48. The Committee considered the proposal to change the format of the External Audit opinion and the related amendment of the Annex to the Financial Regulations "Additional Terms of Reference Governing External Audit." The Committee recommended the proposed amendment of the Financial Regulations to the Council for transmission to the Conference (see Annex IV).

ARRANGEMENTS FOR THE SELECTION AND APPOINTMENT OF THE EXTERNAL AUDITOR

49. The Committee reviewed the proposal covering the arrangements foreseen under Financial Regulation XII for External Audit which had been submitted following its request at its Eighty-eighth Session. The Committee considered that the proposed policies, procedures and selection criteria could be improved in certain areas such as the period of appointment, eligibility of External Auditors and weighting of evaluation criteria. The Committee decided that reference should be made to the experience in these areas of other organisations, particularly IFAD and World Food Programme. The Committee, therefore, requested that this agenda item should be included in the agenda of its September 1998 session when further information should be made

available to supplement the proposal. This information should include the arrangements in place in IFAD and World Food Programme as well as draft tender documentation incorporating detailed evaluation criteria which would take into consideration comments made by the Committee in this regard.

AFTER SERVICE MEDICAL COVERAGE

50. The Finance Committee reviewed the proposal to accelerate the amortization period for the unaccrued liability in respect of after service benefits, starting with the accounts for the biennium ended 31 December 1997. This opportunity had arisen because of a change in accounting policy to comply with a recommendation of the External Auditor and had resulted in an unforeseen credit to the General Fund of US$25 million in the accounts submitted for audit.

51. The Committee commended the Secretariat on taking the lead in the UN system on this important matter. However, the Committee considered that the originally envisaged amortization period starting 1 January 1998 should be complied with pending its review of information on the subject. Therefore, the Committee requested that it be presented with a paper at its September 1998 Session summarizing the full background information on the subject.

UN SCALE OF CONTRIBUTIONS

52. The Legal Counsel reported on the latest developments in the United Nations with respect to the Scale of Assessments for the year 1999. He recalled that the Conference at its 29th Session in November 1997 had adopted a Scale of Contributions for the biennium 1998-1999 and had decided that if the UN General Assembly adopted a new scale of assessments for the years 1998 to 2000 before 31 December 1998, the Director-General should prepare a modified scale of contributions for FAO Member Nations for the year 1999 to reflect that new scale. The UN General Assembly had, on 22 December 1998 (Resolution 52/215) adopted a new UN Scale of Assessments for the period 1998 to 2000 which reflected a number of changes to the previous scale. The Director-General was therefore preparing a modified FAO Scale of Contributions for the year 1999 which would be circulated to all members in the near future. The new UN Scale of Assessments did not reflect any change in the 25% ceiling on individual contributions. The General Assembly, however, in the same Resolution had decided to "consider reviewing the scale for the year 1999 and 2000 during its resumed 52nd session, in the light of all relevant factors, including the periodic reports of the Secretary-General on the status of contributions, and to make a determination in this respect early enough to refer this matter to the Committee on Contributions during the 52nd session of the General Assembly." A decision on reducing the ceiling was linked, in discussions in the General Assembly, to the issue of the payment of arrears by the major contributor. In view of the present uncertainties on this matter, no decision had yet been taken by the General Assembly to consider reviewing the scale of assessments, although the next session of the UN Committee on Contributions was scheduled for 8 to 26 June 1998. It was noted, however, that the deadline for consideration by the General Assembly was somewhat flexible and that the matter might be considered later on in the session in the light of any new developments. A further report on any new developments will be given to the next session of the Finance Committee.

PERSONNEL MATTERS

ANNUAL REPORTS OF THE ICSC AND UN JOINT STAFF PENSION BOARD TO THE GENERAL ASSEMBLY, AND SUMMARY OF THE DECISIONS TAKEN

53. The Committee took note of the information provided in document FC 89/8 and the verbal information provided by Personnel Division. It noted that the decisions taken by the General Assembly on the recommendations of the ICSC will have minimal financial impact and that in some cases would even result in reduced costs.

CHANGES IN SALARY SCALES AND ALLOWANCES

54. The Committee took note of the information provided in Document FC 89/9 and the additional information provided by Personnel Division. The Committee was informed that the Organization would be implementing the judgement of the International Labour Organisation Administrative Tribunal on the language factor and that the means by which the Organization would deal with the resulting additional costs would be discussed under another agenda item.

ORGANIZATIONAL MATTERS

1997 ANNUAL ACTIVITY REPORT OF THE OFFICE OF INSPECTOR-GENERAL

55. The Committee had the subject report before it for information and noted it was the second year the Director-General had made this internal report available to members of the Finance Committee. The Committee expressed its appreciation to the Director-General for this initiative which it considered to be an important element of the overall oversight function. A number of questions and observations were presented to the Inspector-General relating to matters identified in the report and the independence and "modus operandi" of the Office. The Committee also expressed the view that this practice should be an annual feature on its agenda.

UN JOINT INSPECTION REPORTS

56. The Committee took note of the information provided by and the recommendations of the Joint Inspection Unit contained in the following documents:

- i. Execution of Humanitarian Assistance Programmes through Implementing Partners (JIU/REP/97/3) - together with Comments of the Director-General (CL 115/INF/11)
- ii. Coordination at Headquarters and Field Level between UN Agencies involved in Peace Building: an Assessment of Possibilities (JIU/REP/97/4) - together with Comments of the Director-General (CL 115/INF/12)
- iii. Strengthening Field Representation of the United Nations System (JIU/REP/97/1) - together with Comments of the Director-General (CL 115/INF/13)
- iv. ACC Comments on the JIU Report, Strengthening of the United Nations System Capacity for Conflict Prevention (JIU/REP/95/13) (CL 115/INF/14)

v. (JIU/REP/97/5) - together with Comments of the Director-General The Challenge of Outsourcing for the United Nations System (CL 115/INF/16)

57. In order to assess better the recommendations contained in (iii) above, the Committee requested the Secretariat to provide to its September session additional information on the FAO expenditures on staffing and premises of the Organization's decentralised offices (i.e. Regional, Sub-regional and Country Representations, as well as Liaison Offices).

58. The Committee was also apprised of the current efforts of the Organization in promoting or joining common premises on a case-by-case basis, where appropriate and cost-effective.

59. With regard to (v) above, the Committee was provided with additional information by the Secretariat on the use of outsourcing in FAO. It noted, in particular, that as this was a well-established practice within the Organization, the recommendations of the JIU had either already been implemented or were not relevant to the Organization in light of its experience in this area.

HEADQUARTERS ACCOMMODATION

60. The Committee took note of the information provided in document FC 89/12 on the on-going efforts to upgrade the facilities at FAO Headquarters and to consolidate the space allocated to the various departments and divisions. The Committee was informed that as much of this work was to be funded from voluntary contributions, there were no significant financial implications for the Regular Programme.

61. One Member, expressing disappointment that the document did not address the issue, raised the question of the possible co-location of at least one of the other Rome-based agencies on the FAO premises. Following extensive discussion, it was concluded that more information than that contained in the document FC 89/12 was needed from the FAO secretariat to evaluate this proposal, taking into account the recommendations made by the Joint Inspection Unit. The Committee, therefore, suggested that the three interested parties - FAO, the Government of Italy, and IFAD - evaluate the technical feasibility of common premises. If the results of such a study confirmed the possibility of co-location, discussions at a higher level among the three parties could be envisaged. The financial implications of any eventual proposal on the matter should be brought to the attention of the Finance Committee.

REPORT ON THE YEAR 2000 PROBLEM IN FAO

62. The Committee received a verbal report on the approach followed by the Organization in dealing with the Year 2000 Problem. The report focused on the plans developed to ensure full coverage of the spectrum of issues to be addressed. Reference was made to actions taken, such as the replacement of the mainframe and the consultant's review of the exposure of the Organization to the Year 2000 problem, the assessment of the Information Technology (IT) assets (standard and non-standard hardware, standard and non-standard software, as well as corporate and divisional applications), the analysis of the funding required to replace hardware and basic operating systems and to convert applications before the end of 1999 and the preparation of contingency plans. While it was reported that the mainframe had been replaced and was operational from 1 May 1998, the general plan of the Year 2000 project envisaged the conversion of all applications by the end of 1998 and the replacement/upgrade of non-compliant hardware by September 1999.

STATUS REPORT ON ORACLE IMPLEMENTATION

63. In informing the Committee on the status of the Oracle Implementation, the Project Director reported that reasonable progress had been achieved since last September. A thorough review of the phasing of the implementation had been undertaken and in view of the scarcity of resources available, the decision had been made to use the existing Persys and Payroll systems initially as processing engines for staff payments data to be made available to Oracle. A comprehensive gap analysis had been completed and the main areas for bespoke development had been identified in a Field System, to be adapted from a system developed by the World Bank, in a Travel System, for which different options were being studied, and in a Data Warehouse and MIS Reporting System, for which detailed specifications were in progress of being prepared. Regarding the implementation of standard Oracle functionality, dedicated user resources had been assigned to work full time on the configuration and test of the package for deployment by the end 1998-early 1999. The project was now being monitored very closely by Senior Management through progress reviews on a bi-weekly basis.

64. Requested whether WFP was co-operating on the project, the Project Director indicated that the Organization had not yet received a reply from the Programme regarding the invitation made to them in mid-1998 to join resources with FAO as to the replacement of common Human Resources and Financial systems.

OTHER MATTERS

DATE AND PLACE OF THE NEXT SESSION

65. The Committee was informed that the Ninetieth Session was tentatively scheduled to be held in Rome from 21 to 25 September 1998. The final dates of the Session would be decided in consultation with the Chairman.

ANNEX I

PROGRAMME AND BUDGETARY TRANSFERS IN THE 1996-97 BIENNIUM AND ANNUAL REPORT OF BUDGETARY PERFORMANCE TO MEMBER NATIONS

1. In accordance with past practice, the Thirty-first Annual Report of Budgetary Performance to Member Nations is submitted herewith to the Finance Committee. The report summarizes, for information purposes, the budgetary aspects of the overall Regular Programme situation for the 1996-97 biennium. The report includes information by Programme (Appendix A) and by Budget Component (Appendix B).

1996-97 BUDGETARY PERFORMANCE

OVERALL PERFORMANCE

2. Appendix A shows biennial expenditure[4] totalling US$652.7 million, which is US$2.7 million more than the approved budget of US$650 million. In reporting this deficit, it is emphasized that US$4.1 million of additional expenditure had to be recorded in the 1996-97 accounts of the Organization as a consequences of a retroactive decision by the ILO Administrative Tribunal (ILOAT) in January 1998 (i.e. after the end of the biennium) and therefore that management of this expenditure was beyond the control of the Organization. Appendix A shows the budgetary performance by programme in the same format as has been presented in the past biennia, while Appendix B shows the performance by budget component.

Support Costs

3. The above results include the impact of the US$7.5 million deficit on support costs as well as Regular Programme performance for 1996-97 as it had been planned to absorb this deficit from within the Regular Programme Appropriation in order to avoid a deterioration of overall deficit under the General Fund.

4. A Support Cost deficit of this magnitude had been forecast to arise from the expected shortfall in support cost income and the one-time costs of decentralization, as was reported in the thirtieth Annual Report on Budgetary Performance.[5] In 1996-97, expenditure on posts charged to Administrative and Operational Support costs exceeded income from UNDP, Trust Funds and TCP by US$6.7 million. Of this, US$4.3 million can be attributed to a shortfall in expected Support Cost income and US$2.4 million reflects the adverse staff cost variance after taking account of a favourable exchange variance but including one-time decentralization costs and the retroactive effect of the recent ILOAT judgement.

Regular Programme

5. The net result for the Regular Programme as shown in Appendix A is under-spending of US$4.8 million or less than 1% of the appropriation.

Significant factors affecting overall performance in 1996-97 include:

- significant savings under the *Other Human Resources* budget component resulting from restrictions on expenditure and savings from staff vacancies in established posts;
- an adverse staff cost variance of US$8.7 million (see paragraph 28 below);

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4 Includes US$596.9 million expenditure plus US$50.2 million deferred income as per Statement IV less US$1.9 million GCCC (see note on Appendix A) plus the deficit on support costs of US$7.5 million.

5 FC 87/6, paragraph 45 refers

- retroactive salary accrual totalling US$3.3 million under the Regular Programme for 1996-97, payable to Headquarters-based General Service staff. This has arisen from the judgement made by the ILOAT in January 1998 to set aside the International Civil Services Commission (ICSC) decision to phase out the language factor allowance[6];
- one-time costs of implementing the new financial framework for GI Department (other than termination indemnities) as explained in the previous report[7];
- one-time costs of decentralizing TCO Operations to the Regional Offices (other than termination indemnities) and the establishment of Management Support Units in some of these offices incurred under the Regular Programme, amounting to approximately US$1.0 million; and
- additional allotments of US$650 000 to cover costs incurred for the replacement of FINSYS.

6. TCP expenditure is shown in Appendix A under Chapter 4 as being equal to the appropriation, reflecting the impact of Financial Regulation 4.3 which allows the carry forward of the current balance. Over 98% of the 1996-97 Chapter 4 appropriation was committed to approved projects by 31 December 1997.

BUDGETARY TRANSFERS

Between Chapters

7. At their joint session in May 1996, the Programme and Finance Committees examined the Director-General's *Adjustments to the Programme of Work and Budget 1996-97*[8] as well as the *Proposals for the Implementation of a New Financial Framework for FAO Publications and Documents*[9]. The Committees noted that the proposed adjustments may entail budgetary transfers during the course of the biennium.

8. At its April 1997 session the Committee, in the context of the *Annual Report of Budgetary Performance* for 1996[10], was further informed of the need for budgetary transfers arising from the restructuring exercise and of their likely magnitude.

9. Subsequently, at its September 1997 session, the Committee reviewed the paper on *Programme and Budgetary Transfers in the 1996-97 Biennium*[11] and gave its approval to the budgetary transfers between Chapters, as required under Financial Regulation IV, paragraph 4.5(b). Specifically, the Committee authorized the Director-General to transfer up to US$17 million from Chapter 2 *Technical and Economic Programmes* and Chapter 3 *Development Services to Member Nations*. This amount was to be applied in Chapter 1 *General Policy and Direction* (up to an amount of US$4 million), Chapter 5 *Support Services* (US$6.5 million) and Chapter 6 *Common Services* (US$6.5 million).

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6 FC 89/9 refers

7 FC 87/6, paragraphs 6-7 refers

8 PC 74/2 - FC 84/4

9 PC 74/2 FC 84/4 - Sup.1

10 FC 87/6 paragraphs 44-46

11 FC 88/3

10. The Director-General confirms that the effective budgetary transfers required were within the limits approved by the Finance Committee. As can be seen from Appendix A, the transfers required by Chapter were US$2.9 million, US$4.1 million and US$6.3 million which were required to be transferred into Chapters 1, 5 and 6 respectively, and US$13.3 million transferred out of Chapters 2 and 3.

Between Organizational Units

11. Under Financial Regulation IV, paragraph 4.5 (a), the Director-General is authorized to transfer resources from one division to another. However, he is required to report transfers between organizational units where they exceed a specific sum established in accordance with the provisions of Financial Regulation 10.1(a) and the General Rules of the Organization.

12. It has been broadly possible to handle the unbudgeted requirements of decentralization, redeployments and the staff cost variance without specific transfers between divisions. This was accomplished by issuing allotments at reduced levels, taking advantage of the savings opportunities arising from the high number of vacant posts at the beginning of the biennium.

13. However, during 1996-97 certain specific budgetary transfers between organizational units have been necessary as follows:

- as the FINSYS replacement project moved towards a more technically focused phase, the responsibility for implementation and the related funding was shifted from AFF to AFC, resulting in a transfer of US$1.4 million from AFF to AFC;
- the relocation of WAICENT/FAOSTAT group led to the transfer of US$0.8 million out of ESS into AFC and GIL, in equal parts; and
- transfers between divisions within the Sustainable Development Department (i.e. US$229 800 from SDR to SDD and US$49 000 from SDA to SDW) proved necessary to cover costs budgeted in one location but incurred at the other pending the implementation of the restructuring of the SD Department as approved in the 1996-97 PWB.

BUDGETARY PERFORMANCE BY CHAPTER

14. Regular Programme performance by Programme is summarized in Appendix A. As noted above, the performance is within the limits of the revised distribution by Chapter approved by Finance Committee, but further details are provided in this section.

Chapter 1: General Policy and Direction

15. The adverse staff cost variance and the ILOAT judgement accounted for US$1.1 million of unbudgeted costs. Budgetary transfers into this Chapter were also necessary because some of the small organizational units contributing to this Chapter were unable to absorb the lapse factor due to a lack of vacancies. In addition, budgetary coverage was foreseen for some temporary posts.

16. Furthermore, the restructuring of the Publications Division, approved at the joint session of the Programme and Finance Committees in May 1996 and implemented from August 1996, had a major impact on Major Programme 1.1, *Governing Bodies.* The new framework resulted in a number of posts for terminology and reference work, previously charged to the Publications Pool, being transferred to the Regular Programme under this Chapter, totalling about US$1.5 million. This was partly compensated by significant savings resulting from reduced print runs of Conference documents and other economy measures.

Chapter 2: Technical and Economic Programmes

17. Although the number of Professional vacancies has been falling steadily in 1996-97, staff savings of US$10.7 million have been the principle source of the overall savings achieved in this Chapter.

18. Nevertheless, as previously reported in the *Annual Report of Budgetary Performance*[12] for 1996, programme management expenditure has remained high, partly because of significant overtime and temporary assistance expenditure in that area. However, the expenditure under programme management is in part also inflated by expenditure that is budgeted under technical programmes actually being charged under programme management. For example, communication charges (telephone, facsimile, e-mail), stationery, photocopying, local orders, computer equipment (including servers) and software licenses are often absorbed collectively under programme management whereas they are budgeted in the PWB under the substantive sub-programmes. This budgeting anomaly has contributed to the over-expenditures in Programmes 2.1.9, 2.3.9 and 2.5.9. A similar phenomenon has occurred in the area of general service staff costs charged to Programmes 2.1.9, 2.3.9 and 2.5.9, which were significantly in excess of the original budget, by US$2 million, US$1.5 million and US$0.9 million, respectively. In addition to this, Programme 2.1.9 also absorbed higher than anticipated costs related to COAG in the region of US$0.1 million.

19. Also in Chapter 2, US$2.2 million was transferred into Programme 2.2.4 *Food and Agricultural Policy* to meet the additional costs of the World Food Summit as reported to the Committee on Food Security (CFS)[13] and to cover the additional meetings costs associated with extra sessions of the CFS.

20. The over-expenditure in Programme 2.5.6, *Food Production in Support of Food Security in LIFDCs*, results from TSS charges from divisions, authorised in the second part of the biennium and an element of delivery being slightly ahead of schedule on approved projects.

Chapter 3: Development Services to Member Nations

21. The overall under-expenditure in this Chapter arises from significant staff savings totalling US$6.2 million under this Chapter, although this was offset by some one-time over-expenditure resulting from the decentralization effort.

22. Much of the figure for staff savings (i.e. US$3.7 million) occurred under Major Programme 3.4 (FAO Representatives). The larger part of the savings occurred in 1996, as 1997 activity in the restructured Country Offices gradually moved towards the budgeted levels.

23. However, there was some over-expenditure in Major Programme 3.3, Field Operations, resulting from the one-time costs associated with the decentralisation to the Regional Offices for of approximately US$1.0 million.

Chapter 5: Support Services

24. Over-expenditure in this Chapter occurs for a number of reasons. Firstly, the large number of Headquarters based general service staff in this Chapter implies a higher than average impact of the ILOAT judgement which, coupled with the adverse Staff Cost Variance accounts for US$1.6 million. Furthermore, the implementation of the new financial framework for publications and documents required 12 posts and some non-staff costs pertaining to the

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12 FC 87/6 paragraph 30

13 CFS:97/Inf.10

management of external production and printing services to be funded directly from the Regular Programme under Major Programme 5.1 Information and Documentation rather than the Publications Pool. The financial impact of this is estimated at US$1.5 million. A number of encumbered abolished posts were also charged to this Chapter pending redeployment or other action which, together with other temporary posts, totalled US$1.4 million. In addition, the on-going FINSYS replacement project required further expenditure of US$0.6 million for technical support and peripheral hardware and software.

Chapter 6: Common Services

25. The adverse staff cost variance (including the ILOAT judgement) was responsible for approximately US$1 million of unbudgeted costs. The remaining over-expenditure in this Chapter can largely be explained by the implementation of the new financial framework for publications and documents which required postage and distribution costs totalling US$3.7 million, to be transferred to AFS. Moreover, the adjustments necessary to reduce the budget to US$650 million required the abolition of a considerable number of *Common Services* positions, through improved efficiency (including outsourcing) and a curtailment of services. Whilst redeployment efforts continued, a significant number of encumbered abolished posts required additional funding of US$1.3 million in the 1996-97 biennium.

BUDGETARY PERFORMANCE BY BUDGET COMPONENT

26. The outturn by budget component is summarized in Appendix B, 1996-97 Budgetary Analysis by Component. Significant factors affecting the overall performance by budget component are described below.

Staff Costs

27. The significant savings arising from vacancies are not apparent in Appendix B, as the savings have been used to cover areas of unbudgeted expenditure within the same budget component. The lapse factor methodology effectively built in staff savings on the staffing establishment of approximately US$12.5 million. However, additional savings over and above the lapse factor were in excess of US$25 million. This was largely offset by charges under Regular Programme staff costs of posts previously funded from the Publications Pool; the existence of staff on abolished posts while awaiting redeployment or other action (US$7.1 million); other temporary posts (US$4.0 million); and the Staff Cost Variance, including the ILOAT decision (US$12.0 million).

Staff Cost Variance

28. Charges for staff costs are based on standard rates which are not changed during the biennium. However, variances between the standard cost charged to divisions and the actual cost incurred are distributed over all programmes in proportion to the amounts incurred at standard rates.

29. If the late adjustment arising from the ILOAT decision is excluded, actual staff costs for the 1996-97 biennium proved to be higher than the standard costs applied to the programme by US$8.7 million which is in line with the forecast of US$8.8 million given to the Committee at its April 1997 session. This unfavourable staff cost variance is analyzed in the table below.

Item	Amount (US$000)	Explanation
Salaries	(4,180)	Over-expenditure is mainly attributable to an increase of 5.68% in Professional salaries as of 1 Jan 97 following the approval of the ICSC's recommendations by the General Assembly (offset by reduction in Post Adjustment).
Post Adjustment	3,138	Reflects the consolidation of 5.26% into base salary offset by shortfall in budgetary coverage for non-HQ staff.
Pension Fund	(1,327)	In November 1995 the ICSC promulgated a revised scale of pensionable remuneration with an across the board increase of 6.47%. This increase was announced after the PWB was completed and was not provided for in the 1996-97 salary budget.
Social Security	(650)	The budget over-run is attributable mainly to increases in After Service Medical Costs.
Spouse Allowance - General Service	(327)	As a result of the General Service Salary Survey, spouse allowance was increased by 112%. This increase was paid in November 1995 (retroactive to November 1994) after the 1996-97 PWB had been prepared.
Education Grant	(366)	The ICSC has recommended increases ranging from 5% for Italian lire to 10.5% for US$ claims in the USA effective 1 January 1997.
Mobility/Hardship	583	Lower than anticipated increases against budget provision.
Repatriation Grant, etc.	(1,093)	This includes Commutation of Annual Leave and the increased Installation Allowance costs reflecting the effects of restructuring.
Sub-Total	**(4,222)**	
Separation Payments		
Termination Indemnities	(4,506)	This figure reflects the impact of agreed terminations in excess of the budget provision of US$ 700 000 following the restructuring / decentralization exercise.
Grand Total	**(8,728)**	

Non-Staff Costs

30. It will be noted from Appendix B that significant savings in some components, *notably Other Human Resources,* have occurred. Part of the reason for under-expenditure in *Other Human Resources* is a discrepancy between the budgeting and accounting treatment of Fellowships and Study Tours expenditure incurred under the Special Programme for Food Security, which accounted for US$2.2 million of expenditure. This has been charged as *General Operating Expenses* expenditure whereas it is was budgeted as *Other Human Resources.* This realignment of expenditure between the two components would reduce the savings in Other Human Resources to US$8.0 million. The saving of this latter amount reflects deliberate under-spending by divisions in order to finance over-expenditure in other budget components, notably *Computer Services* and *General Operating Expenses*.

31. The adverse variance in *Computer Services* partly the result of the transfer of some US$450 000 of WAICENT resources from various budget components in ESS to the Computer Pool Account, which is charged to this component. Other factors include the additional hardware and software support for the corporate administrative systems and the increased need for basic network services in support of *Windows* workstations. Furthermore, the ageing mainframe resulted in increased maintenance costs.

32. *General Operating Expenses* (GOE) covers regular non-staff costs of operations, such as communications and stationery, but also includes the purchase of equipment and staff development and training costs. *GOE* has exceeded budgets because of a number of factors:

- The extraordinary reductions applied to this component to bring down the 1996-97 Programme of Work and Budget from the US$706.9 million to the adjusted figure of US$650 million were, in retrospect, excessive. Indeed, the Committee was advised, in the *Annual Report of Budgetary Performance to Member Nations*[14] that the budget under this budget component had been increased by US$5.8 million in 1998-99, to reflect historical under-budgeting and hence more realistic requirements in the 1998-99 Programme of Work and Budget;
- The implementation of the new financial framework for publications and documents caused a shift in postage costs of US$3.7 million from the *Publications* component *into GOE*;
- The restructuring of the remainder of the GI department and the need to modernize much of the remaining publications, editorial and translation equipment resulted in additional *GOE* expenditure of approximately US$1 million;
- The continuing requirement for communications services in support of decentralization and the steady migration of divisions towards more powerful technology has contributed to a high level of *GOE*. The decentralization programme has also required additional one-time purchase of furniture and equipment in the decentralized offices to accommodate the influx of staff from headquarters, in the sum of approximately US$2.1 million;
- As has already been mentioned, US$2.2 million was spent in the Special Programme under *GOE* which should be reclassified to *Other Human Resources*;
- A large number of headquarters divisions have also upgraded their computer hardware and software.

33. The adverse variance in *Meetings* is in fact the result of an anomaly that will be corrected during the 1998-99 implementation cycle. Specifically, temporary assistance for GIC meetings was budgeted under *Temporary Assistance and Overtime* whereas the expenditures in 1996-97 were actually incurred under the *Meetings* budget component as direct meeting costs. This has resulted in a deficit under the *Meetings* component and a corresponding surplus under *Temporary Assistance and Overtime.*

RESERVES AND BALANCES

CURRENCY

34. The Special Reserve Account (SRA) showed a balance of US$0.7 million at the beginning of the biennium to which should be added US$20 million being the indebtedness of the General Fund to the SRA as at 31 December 1995.

35. The Programme of Work and Budget 1996-97 was approved on the basis of Lire 1 600 to US$1.00. Consistent with past practice and in accordance with advice from the Advisory

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[14] FC 87/6 paragraph 24

Committee on Investments, the Organization had entered into contracts for the forward purchase of estimated Lire requirements for the biennium at an average rate of Lire 1 669 to US$1.00 These contracts lock the Organisation into a particular Lira rate which protects the budget if the Lira strengthens against the US Dollar versus the approved budget rate of exchange, as was the case in the biennium, although less so in 1997 than in 1996. In addition, the Organization has gains/losses on other currencies including unrealized gains/losses on the conversion of bank balances in non-dollar currencies held in accounts throughout the world. The net effect of these two exchange movements together was a net gain of US$9.3 million in the SRA.

36. Furthermore, the difference between the staff cost at the budget rate and the UN operational rate at the time of payment resulted in a further gain of US$1.5 million. In accordance with the resolutions governing the SRA, this amount has been credited to the account accordingly.

37. Conference Resolution 16/91 established a special assessment on Member Nations in two equal instalments of US$14 million, due on 1 January 1992 and 1 January 1993. As reported in the *Annual Report of Budgetary Performance to Member Nations*[15] for 1992-93 and the *Annual Report of Budgetary Performance to Member Nations*[16] for 1994-95, US$18.2 million and US$1.5 million were received in the respective biennia. A further US$0.5 million were received in 1996-97 and credited to the SRA.

38. Finally, a transfer was made to the General Fund of US$12 million, leaving the SRA balance at the end of 1997 at zero but increasing the indebtedness of the General Fund to the SRA to US$32 million.

ACCUMULATED DEFICIT

39. The accumulated deficit brought forward at the beginning of the biennium was US$113.6 million consisting of US$70.6 million on the General Fund (including the Publications Revolving Fund) its indebtedness to the Working Capital Fund (WCF) and the SRA to the General Fund of US$23 million and US$20 million respectively.

40. During 1996-7, the accumulated deficit has been reduced by US$58.9 million to US$53.3 million as at 31 December 1997 consisting of a favourable balance of US$2.4 million on the General Fund (including the Publications Revolving Fund) offset by its indebtedness of US$23.7 million and US$32 million to the WCF and SRA respectively. Although changes in the balance of the General Fund are, in effect, the sum of all transactions, the key causal factor behind the reduction of the accumulated deficit is the receipt of US$59 million of 1995 assessed contributions from the USA in early 1996.

41. This deficit needs to be seen in the context of total arrears of assessed contributions which stood at US$136.7 million at the end of 1997.

CONCLUSION AND ACTION FOR THE COMMITTEE

42. The Committee may wish to note the complexity of financial management in 1996-97 with the major restructuring undertaken in an environment of sharply declining resources. The Committee may also wish to recognize the Director-General's successful efforts at managing costs within the budget and largely absorbing the support costs deficit. This target would have been fully met if it had not been for the very late decision of the ILOAT in January 1998, which added an amount of US$4.1 million to Regular Programme and Support Cost funded expenditures for the 1996-97.

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15 FC 78/4 paragraph 14

16 FC 84/3 paragraph 32

43. The Committee is invited to approve the Annual Report of Budgetary Performance to Member Nations.

Appendix A

ANNUAL REPORT OF BUDGETARY PERFORMANCE TO MEMBER NATIONS

1996-97
(US$ thousands)

Chapter/Major Programme/Programme	1996-97 Approved Budget as of 8/6/96	Budgetary Transfers	1996-97 Approved Budget as of 31/12/97	1996-97 Expenditure and Commitments	Balance(+) Deficit(-) as of 31.12.1997
1. General Policy and Direction					
1.1 Governing Bodies	15,395	900	16,295	16,328	(33)
1.2 Policy, Direction and Planning	18,768	1,700	20,468	20,509	(41)
1.3 External Coordination and Liaison	11,201	(200)	11,001	10,599	402
1.9 Programme Management	809	500	1,309	1,315	(6)
Total Chapter 1	**46,173**	**2,900**	**49,073**	**48,751**	**322**
2. Technical and Economic Programmes					
2.1.1 Natural Resources	16,775	(1,000)	15,775	15,700	75
2.1.2 Crops	26,062	(3,800)	22,262	22,248	14
2.1.3 Livestock	17,667	(1,500)	16,167	16,071	96
2.1.4 Agricultural Support Systems	15,987	(1,000)	14,987	14,973	14
2.1.5 Agricultural Applications of Isotopes and Biotechnology	4,998		4,998	4,723	275
2.1.9 Programme Management	11,186	2,300	13,486	13,495	(9)
2.1 Agricultural Production and Support Systems	*92,675*	*(5,000)*	*87,675*	*87,210*	*465*
2.2.1 Nutrition	18,328		18,328	18,590	(262)
2.2.2 Food and Agricultural Information	35,028		35,028	34,873	155
2.2.3 Agriculture and Economic Development Analysis	6,807	(1,400)	5,407	5,257	150
2.2.4 Food and Agricultural Policy	16,717	2,200	18,917	18,907	10
2.2.9 Programme Management	8,755	(1,000)	7,755	7,752	3
2.2 Food and Agriculture Policy and Development	*85,635*	*(200)*	*85,435*	*85,379*	*56*
2.3.1 Fisheries Information	6,200		6,200	6,031	169
2.3.2 Fisheries Resources and Aquaculture	10,688	(500)	10,188	10,024	164
2.3.3 Fisheries Exploitation and Utilization	8,579	(900)	7,679	7,108	571
2.3.4 Fisheries Policy	8,849	(500)	8,349	8,171	178
2.3.9 Programme Management	5,606	500	6,106	6,093	13
2.3 Fisheries	*39,922*	*(1,400)*	*38,522*	*37,427*	*1,095*
2.4.1 Forest Resources	7,558	(1,400)	6,158	6,059	99
2.4.2 Forest Products	4,734		4,734	4,353	381
2.4.3 Forestry Policy and Planning	12,139	(400)	11,739	11,319	420
2.4.9 Programme Management	5,915		5,915	5,430	485
2.4 Forestry	*30,346*	*(1,800)*	*28,546*	*27,161*	*1,385*
2.5.1 Technology Development and Transfer	11,118	(1,000)	10,118	10,042	76
2.5.2 Women in Development and People's Participation	8,142		8,142	8,149	(7)
2.5.3 Rural Development and Agrarian Reform	7,073	(1,000)	6,073	5,962	111
2.5.4 Environmental Information Management	3,312	(400)	2,912	2,805	107
2.5.5 Coordination and promotion of Sustainable Development	3,379	(400)	2,979	2,911	68
2.5.6 Food Production in Support of Food Security in LIFDCs	10,000	800	10,800	10,738	62
2.5.9 Programme Management	7,248	1,300	8,548	8,612	(64)
2.5 Contributions to Sustainable Development and Special Programme Thrusts	*50,272*	*(700)*	*49,572*	*49,219*	*353*
Total Chapter 2	**298,850**	**(9,100)**	**289,750**	**286,396**	**3,354**
3. Development Services to Member Nations					
3.1 Policy Assistance	20,880	(1,200)	19,680	19,635	45
3.2 Support to Investment	21,698	(1,100)	20,598	20,179	419
3.3 Field Operations	862	2,100	2,962	2,988	(26)
3.4 FAO Representatives (see note 1)	64,362	(4,000)	60,362	60,051	311
3.5 Cooperation with External Partners	3,730		3,730	3,943	(213)
3.9 Programme Management	2,012		2,012	2,178	(166)
Total Chapter 3	**113,544**	**(4,200)**	**109,344**	**108,974**	**370**
4. Technical Cooperation Programme					
4.1 Technical Cooperation Programme (see note 2)	85,497	(172)	85,325	85,325	-
4.2 TCP Unit	2,116	172	2,288	2,288	-
Total Chapter 4	**87,613**	-	**87,613**	**87,613**	-
4. Support Services					
5.1 Information and Documentation	25,459	2,400	27,859	27,802	57
5.2 Administration	37,999	1,700	39,699	39,663	36
Total Chapter 5	**63,458**	**4,100**	**67,558**	**67,465**	**93**
6. Common Services	**39,762**	**6,300**	**46,062**	**45,997**	**65**
7. Contingencies	600	-	600	-	600
GRAND TOTAL REGULAR PROGRAMME	**650,000**	**-**	**650,000**	**645,196**	**4,804**
1996-97 Support Cost Deficit (i.e. excess of expenditure over income)				7,479	(7,479)
GRAND TOTAL REGULAR and SUPPORT COST PROGRAMMES	650,000	-	650,000	652,675	(2,675)

Note 1 The expenditure for programme 3.4. Is shown net of US$ 1 907 573 being receipts of Government Counterpart Contributions for the biennium as assumed for the development of the approved budget.

2 The figure for TCP includes US$ 50.2 million being deferred income in Statement IV of the Accounts

Appendix B

ANNUAL REPORT OF BUDGETARY PERFORMANCE TO MEMBER NATIONS

Regular Programme

1996-97
(US$ thousands)

1996-97 BUDGETARY PERFORMANCE ANALYSIS BY BUDGET COMPONENT			
Budget Component	**1996-97 Approved Budget**	**1996-97 Expenditure and Commitments**	**Balance (+) Deficit (-)**
Total Salaries	375,412	373,610	1,802
Temporary Assistance and Overtime	12,574	9,401	3,173
Other Human Resources	69,038	58,816	10,222
Official Travel	22,011	19,197	2,814
Meetings	4,712	6,202	(1,490)
Publications	23,573	23,226	347
Computer Services	11,820	12,929	(1,109)
General Operating Expenses	40,043	52,530	(12,487)
Other	5,320	3,788	1,532
TOTAL (Excl. TCP)	**564,503**	**559,699**	**4,804**
TCP	85,497	85,497	-
GRAND TOTAL REGULAR PROGRA	**650,000**	**645,196**	**4,804**

ANNEX II

COMPENSATION PLAN RESERVE FUND

SUMMARY OF INVESTMENTS TO 31 DECEMBER 1997

(with percentages at 31 December 1996 for comparison)

	COST			MARKET			DIFFERENCE	INCOME 1997	
	31.12.97		31.12.96	31.12.97		31.12.96			
	$	%	%	$	%	%	$	$	%
EQUITIES									
US$	10 942 390	26.14	26.83	19 897 688	36.77	33.27	8 955 298	286 623	2.62
Non-US$	10 783 888	25.76	32.03	14 259 890	26.35	31.99	3 476 002	150 881	1.40
Sub-Total	21 726 278	51.90	58.86	34 157 578	63.13	65.26	12 431 300	437 504	2.01
BONDS									
US$	8 813 812	21.05	12.94	8 968 787	16.58	10.68	154 975	139 657	1.58
Non-US$	10 963 956	26.19	21.86	10 640 369	19.66	19.00	- 323 587	1 993 308	18.18
Sub-Total	19 777 768	47.24	34.80	19 609 156	36.24	29.68	- 168 612	2 132 965	10.78
TEMPORARY INVESTMENTS	359 524	0.86	6.34	343 573	0.63	5.06	- 15 951	39 939	11.11
Sub-Total	359 524	0.86	6.34	343 573	0.63	5.06	- 15 951	39 939	11.11
GRAND TOTAL	41 863 570	100.00	100.00	54 110 307	100.00	100.00	12 246 737	2 610 408	6.24

Not including US$ 338 062 of accrued income

ANNEX III

SEPARATION PAYMENTS SCHEME

SUMMARY OF INVESTMENTS TO 31 DECEMBER 1997

(with percentages at 31 December 1996 for comparison)

	COST			MARKET			DIFFERENCE	INCOME 1997	
	31.12.97		31.12.96	31.12.97		31.12.96			
	$	%	%	$	%	%	$	$	%
EQUITIES									
US$	28 106 041	25.77	26.19	51 392 236	36.39	32.82	23 286 195	729 323	2.59
Non-US$	27 354 987	25.08	31.51	36 698 220	25.98	31.46	9 343 233	336 247	1.23
Sub-Total	55 461 028	50.85	57.70	88 090 456	62.37	64.28	32 629 428	1 065 570	1.92
BONDS									
US$	23 283 526	21.35	13.77	23 721 787	16.80	11.35	438 261	409 990	1.76
Non-US$	29 005 719	26.60	22.07	28 143 032	19.93	19.23	- 862 687	5 023 402	17.32
Sub-Total	52 289 245	47.95	35.84	51 864 819	36.72	30.58	- 424 426	5 433 392	10.39
TEMPORARY INVESTMENTS	1 306 090	1.20	6.46	1 279 530	0.91	5.14	- 26 560	266 562	20.41
Sub-Total	1 306 090	1.20	6.46	1 279 530	0.91	5.14	- 26 560	266 562	20.41
GRAND TOTAL	109 056 363	100.00	100.00	141 234 805	100.00	100.00	32 178 442	6 765 524	6.20

Not including US$ 909 919 of accrued income

ANNEX IV

PROPOSED REVISION TO THE FORMAT OF THE EXTERNAL AUDIT OPINION

BACKGROUND

1. At its Eighty-seventh Session in August 1997, the Consultative Committee on Administrative Questions (Financial and Budgetary) (CCAQ (FB)), on behalf of the Administrative Committee on Co-ordination (ACC), reviewed the proposals of the United Nations Panel of External Auditors regarding suggested revisions to the wording of the audit opinion throughout the United Nations system. CCAQ(FB) members accepted the proposed text and stated that they would be taking steps, as appropriate, to initiate any necessary changes to their financial regulations to effect the revision.

2. At the Fifty-second session of the General Assembly of the United Nations, the Secretary-General reported that, at the request of the Chairman of the Panel, he had brought the revision suggested by the Panel to the attention of the members of the ACC and that member organizations of the ACC had decided to recommend to their governing bodies approval of any necessary changes in the annex to the Financial Regulations.

3. The Organization has reviewed the Panel's proposal and agrees that the suggested revision would help ensure that the audit opinion reflects current best practice. The proposed revision has also been discussed with the incumbent FAO External Auditor, the Cour des Comptes of France, who have confirmed their agreement to the suggested revision.

CURRENT PROVISIONS OF THE ANNEX TO FAO'S FINANCIAL REGULATIONS

4. The Terms of Reference governing External Audit of FAO and the format of the opinion on the financial statements of FAO are set out in the Financial Regulations and Annex I to the Financial Regulations.

5. The paragraph of the Annex to FAO's Financial Regulations relevant to the wording of the audit opinion is:

Paragraph 5:

"The External Auditor shall express and sign an opinion on the financial statements in the following terms: 'I have examined the following appended financial statements, numbered...to...properly identified, and relevant schedules of the Organization for the financial period ended 31 December 19... My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.'

And which states, as appropriate, whether:

- *a) The financial statements present fairly the financial position as at the end of the period and the results of its operations for the period then ended;*
- *b) The financial statements were prepared in accordance with the stated accounting principles;*

c) *The accounting principles were applied on a basis consistent with that of the preceding financial period;*
d) *Transactions were in accordance with the Financial Regulations and legislative authority."*

PROPOSED PROVISIONS OF THE ANNEX TO FAO'S FINANCIAL REGULATIONS

6. The Panel's proposal will replace paragraph 5 of the present annex to FAO's Financial Regulations as follows:

"The External Auditor shall express and sign an opinion on the financial statements. The opinion shall include the following basic elements:

a) *the identification of the financial statements audited;*
b) *a reference to the responsibility of the entity's management and the responsibility of the auditor;*
c) *a reference to the audit standards followed;*
d) *a description of the work performed;*
e) *an expression of opinion on the financial statements as to whether:*
   - *the financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;*
   - *the financial statements were prepared in accordance with the stated accounting policies; and*
   - *the accounting policies were applied on a basis consistent with that of the preceding financial period;*
f) *an expression of opinion on the compliance of transactions with the financial regulations and legislative authority;*
g) *the date of the opinion;*
h) *the external auditor's name and position; and*
i) *should it be necessary, a reference to the report of the External Auditor on the financial statements."*

7. The Panel's approach is to ensure that all opinions contain the same main elements, while the precise and detailed wording of the audit opinion rests with the External Auditors. The new wording does not in any way limit the nature or scope of the work of the External Auditor, which will continue to include a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as considered necessary in the circumstances.

RECOMMENDATION

8. It is recommended that the Council approve the proposed change to the annex to the Financial Regulations "Additional Terms of Reference Governing External Audit", as stated in paragraph 6 above and forward it to the Conference for final adoption.