



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
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Organisation
des
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Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COUNCIL

Hundred and Thirty-fifth session

Rome, 17 - 18 November 2008

Report of the 123rd Session of the Finance Committee
Rome, 6 – 10 October 2008

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Matters requiring attention by the Council

Report of the Hundred and Twenty-third Session of the Finance Committee

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REPORT OF THE HUNDRED AND TWENTY-THIRD SESSION OF THE
FINANCE COMMITTEE

Rome, 6 – 10 October 2008

Introduction

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

2. The following representatives were present:

Chairperson: Mr Yasser A. R. Sorour (Egypt)
Vice-Chairperson: Mr Lee Brudvig (United States of America)
Members: Mr MOUNGUI MÉDI (Cameroon)
Mr Li Zhengdong (China)
Mr Søren Skafte (Denmark)
Mr Jean-Jacques Soula (France)
Mr Eckhard W. Hein (Germany)
H.E. Jorge E. Chen Charpentier (Mexico)
Mr Aamir A. Khawaja (Pakistan)
H.E. Eudoro Jaén Esquivel (Panama)
Mr Robert Sabiiti (Uganda)

3. The Committee noted that, despite repeated requests to the World Food Programme (WFP) Secretariat in the past, and included in the previous reports of the Finance Committee, the WFP documents were not provided to the Committee in accordance with the established deadlines. The Committee expressed their deep concerns on the impact of these continued delays on the efficient functioning of the work of the Committee and noted that, in future, the Committee may consider deferring discussion on documents not received in time. The Committee also agreed that the Executive Director should be informed in writing by the Chairperson of the Committee's concerns with a view to finding a solution.

4. In the same manner, the Committee also agreed that the President of the Executive Board of WFP should be approached in order to examine the possibility of presenting the report of the Committee to the Executive Board of the WFP as a standing item.

Financial and Budget Reports

FINANCIAL HIGHLIGHTS AND STATUS OF CURRENT ASSESSMENTS AND ARREARS

5. The Committee reviewed the paper on *Financial Highlights and Status of Current Assessments and Arrears* which showed the unaudited results of operations for the first six months of the 2008-09 biennium and the financial status of the Organization as at 30 June 2008. The Committee also reviewed a working paper on the status of assessed contributions at 1 October 2008 and noted several key messages to be drawn from the discussion papers.

6. The General Fund (GF) deficit at 30 June 2008 stood at a level of USD 218.8 million compared to the 31 December 2007 balance of USD 465.3 million. This interim result could not, however, be regarded as indicative of the final outcome because it included a full year of assessed contributions but only six months of expenditure. A projection to the end of 2008 indicated that the deficit would be similar to the 2007 balance. The following salient points were noted by the Committee:

- a) There had been an improvement in the rate of receipt of current assessments which had reached 70.3% as of 30 September 2008 compared to 64.0% as of 30 September 2007. The Committee, however, expressed very serious concern at the persistently high level of arrears of contributions from previous years (USD 58.4 million and EUR 27.8 million), which continued to be a significant factor undermining the financial health of the Organization; and
- b) The under-funding of the After Service Medical Coverage (ASMC) liability related to past service continued to be a cause of structural deficit on the GF. The Committee again noted that the biennial assessments of USD 14.1 million towards ASMC past service funding, as first approved by Conference in November 2003, remained insufficient to ensure that these significant liabilities became fully funded. The Committee recalled that it had resolved to consider this matter at its May 2009 session when it would review the latest 2008 actuarial valuation and make its recommendation to Council for ASMC funding in the context of the Programme of Work and Budget (PWB) 2010-11.

7. In the light of the significant recent falls in equity markets, the Committee was provided an update on the latest market valuation of the long-term investment portfolio which the Organization holds as partial funding towards staff-related liabilities. The market value of the portfolio at 6 October 2008 had declined to USD 248 million compared to a value of USD 300 million at 31 December 2007, reflecting the significant downturn in equity markets during 2008. The FAO long-term portfolio's return of negative 19%, however, was better than the broader market's performance (negative 31%), which reflected the diversification of the FAO portfolio across bond and equity investments as well as across Euro and US Dollar holdings. The long-term investment income recorded for the first six months of 2008 amounted to USD 7.3 million (2007 – USD 9.0 million), however, final income for 2008 would be affected by market performance in the second half of 2008.

8. The Organization's short-term investments (representing mainly Trust Fund contributions awaiting project expenditure) were re-positioned in the course of 2008 into even more secure placements, and continued to earn a small positive return.

9. Technical Cooperation Programme (TCP) expenditure during the first six months of 2008 charged against the 2006-07 appropriation amounted to USD 13.7 million while spending against the 2008-09 appropriation amounted to USD 1.0 million. As at 30 June 2008, the total TCP deferred income (unspent appropriation) amounted to USD 105.9 million. The Secretariat confirmed that there were no liquidity constraints affecting TCP. The Committee noted that this issue would be further discussed under Agenda Item 13.

10. With regard to the other components of the Organization's reserves, the Committee was informed that the Working Capital Fund (WCF) balance at 30 June 2008 of USD 25.2 million remained unchanged from 31 December 2007. The Special Reserve Account (SRA) balance at 30 June 2008 had increased to USD 43.6 million compared to USD 25.6 million at 31 December 2007. The Committee noted that this balance included some USD 25.5 million of unrealized exchange gains on the revaluation of unpaid EUR contributions, and consequently this component of the SRA was not backed by actual cash resources. The Secretariat informed the Committee that the Organization would be carrying out a review of the function, purpose and accounting treatment of the SRA in the context of the implementation of International Public Sector

Accounting Standards (IPSAS) requirements and would present proposals for revision to the Finance Committee.

11. The Committee noted that the liquidity position had improved over the summer period due to the higher receipt of current assessments so far in 2008 compared to the same period in 2007. Looking forward, liquidity was expected to remain positive only if important contributions between October and December 2008 were received in a similar pattern as in 2007, including in particular the receipt of outstanding contributions from its largest contributors by the last quarter of 2008 to avoid borrowing funds from banks to pay for operating expenditure. The Committee noted that prevailing market conditions would make an eventual recourse to external borrowing more problematic for the Organization and carry higher interest costs.

12. Fully recognizing that only through timely receipt of contributions, could FAO meet operating cash requirements without recourse to statutory reserves or to external borrowing, the Finance Committee urged all Member Nations to make timely payment of assessed contributions to ensure that FAO could meet the operating cash requirements for the programme of work.

13. The Committee again noted with serious concern the magnitude of the accumulated General Fund deficit. In this connection many Members reiterated the need for proposals to replenish the reserves to levels consistent with the existing operating requirements of the Organization. The Committee resolved to inform the Council of the current severe financial situation of the Organization, and to develop proposals for replenishment of reserves in the context of the PWB 2010-11.

AUDITED ACCOUNTS FAO 2006-2007

14. In accordance with General Rule XXVII 7(1), the Committee examined the FAO Audited Accounts for the biennium 2006-2007.

15. The External Auditor noted that an unqualified opinion had been issued on the FAO Audited Accounts for the biennium 2006-2007 and highlighted some points of his report as follows:

- a) There had been a marginal improvement in the net shortfall of income over expenditure of the Organization as at the end of the biennium 2006-2007, mainly due to a reduction in the provision for contributions by USD 67.6 million and an increase in gains in exchange by USD 34.2 million;
- b) The deficit in the General Fund balance had increased steadily over the last three biennia and stood at USD 465.3 million as at the end of biennium 2006-2007. As part of the changes in accounting policies, the Organization had recorded an additional USD 397.7 million towards the staff related liabilities and reduced the provision for delays in receipt of contributions by USD 161 million. Although staff related liabilities were now fully recorded, an amount of USD 404.6 million remained unfunded. (Under the previous accounting policies, these liabilities were not fully recorded in the financial statements but were instead disclosed in a note);
- c) The Organization resorted to extensive external borrowing during 2006-2007 with the cost of borrowing amounting to USD 1.8 million. The timing of receipt of assessed contributions had a direct bearing on the liquidity position of the Organization;
- d) In the light of the reported widening of the gap in recovery of project servicing costs, increasing staff costs, repeated recourse to external borrowing and the slowing down of the TCP delivery, the Organization should review its existing business model and consider the adequacy of internal reserves;
- e) The steps taken by the Organization towards adoption of IPSAS which had resulted in improved presentation of the Financial Statements were welcomed. It was noted, however, that IPSAS implementation in an Organization as decentralised as FAO would require close monitoring of costs and timing;

- f) In field offices weaknesses were observed in various aspects of internal control, monitoring, documentation, project timelines and closure, and the availability and use of Information Technology (IT) resources. The importance of capacity building of these offices in the context of decentralisation was underlined;
- g) The lack of clear identification of a source of funding had impacted the Human Resources Management System (HRMS) project in its early stages. The External Auditor recommended that the Organization should in future first identify and secure a source of funding before deciding to go ahead with any large project;
- h) The Organization should consider the need to customise portions of the HRMS software package to better suit its business needs;
- i) In order to realise the full value of the HRMS, the Organization should review the adequacy of field office connectivity to support the functionality implemented and take steps to address any deficiencies identified;
- j) The efforts made by the Organization to address many of the observations and recommendations relating to system security, documentation, upgrading of skills of business units and introduction of a formal emergency change procedure were acknowledged;
- k) Increasing automation and demands placed on IT resources emphasised the need to establish an appropriate IT governance mechanism to prioritise competing demands;
- l) The risks associated with the absence of a Business Recovery Plan and reliance on stand alone measures should be recognised at an Organizational level;
- m) The steps taken to address areas of risk analysis and audit planning, timely issue and follow up of audit reports, and separation of responsibilities between audit and investigative work were acknowledged;
- n) In relation to the steps which had been taken to reform the Local Audit Programme (LAP), the importance of ensuring that the programme continues its coverage of field offices during the transition of LAP responsibility to the Office of the Inspector-General was emphasised;
- o) The value for money audit on the procurement of consultants and Personal Service Agreements subscribers by the Emergency Operations and Rehabilitation Division had highlighted the need to encourage more competition, to develop and maintain a division-specific roster of experts, to document better the process of selection and evaluation, and to maintain more comprehensive information on the experts;
- p) The placing in the public domain of information on experts selected and also all the rules and regulations governing the selection process, and eligibility criteria of the experts was encouraged; and
- q) The issue of developing a comprehensive framework of rules to guide the selection and engagement of consultants and Personal Service Agreement subscribers for emergency projects, as distinct from rehabilitation or other projects was emphasised.

16. The External Auditor expressed appreciation for the cooperation of the Director-General and his officers and staff.

17. The Committee welcomed the issuance of the External Auditor's unqualified opinion on the 2006-07 Accounts and expressed appreciation for the quality of the report presented. The Committee expressed the need that the Organization vigorously follow up on all the recommendations from the External Auditor.

18. The Committee expressed sincere thanks for six years of work performed by the Comptroller and Auditor General of India, whose mandate as External Auditor of FAO ended with the audit for the accounts for the 2006-2007 biennium.

19. The Committee welcomed the positive reaction of the Secretariat to the External Auditor's report and recalled that details of the follow-up action against each recommendation made would be provided in reports to the Finance Committee in 2009. The Committee noted that many of the key issues raised in the report of the External Auditor were consistent with recommendations of the report of the Independent External Evaluation (IEE) and the Root and Branch Review, providing the Organization an opportunity to concentrate its efforts on these key recommendations.

20. In response to specific questions, the Committee noted as follows:

- The Organization's deteriorating financial position was in part due to liquidity shortages caused by the late receipt of Member assessed contributions. The main long-term financial imbalance was related to the unfunded staff-related liabilities, a UN wide issue, and which was the subject of regular consideration by the Finance Committee;
- Separate proposals would be presented by the Secretariat regarding the gap between recovery of project serving costs and related expenditures, for consideration by the Finance Committee; and
- Attention needed to be given to improve the level and quality of management reporting and information for decision making, especially on human resources.

21. The Committee, noting the comments and clarifications provided by the External Auditor and the Secretariat, recommended that the Council submit to the Conference for adoption, the Audited Accounts for the 2006-2007 biennium. The Committee accordingly agreed to submit to the Council the draft resolution below for on forwarding to the Conference.

DRAFT CONFERENCE RESOLUTION

FAO AUDITED ACCOUNTS 2006-07

The Conference,

Having considered the report of the 136th Session of the Council, and

Having examined the 2006-07 FAO Audited Accounts and the External Auditor's Report thereon

Adopts the Audited Accounts.

AUDITED ACCOUNTS FAO CREDIT UNION 2007

22. The Committee took note of the information provided in document FC 123/3b) – *Audited Accounts FAO Credit Union 2007*

AUDITED ACCOUNTS FAO COMMISSARY 2007

23. The Committee reviewed document FC 123/3c) -*Audited Accounts – FAO Commissary 2007* and took note of the Commissary's operational surplus and financial self-sufficiency during the period in question.

24. One member supported the recommendation of the IEE that the Commissary should be run as a fully independent operation from FAO. The Committee received clarification from the Secretariat that implementation of recommendation 8.20 b)¹ of the IEE report, was deemed not feasible by the management as a result of the constraints arising from the Headquarters

¹ Recommendation 8.20 b) of the IEE Report – “both the Commissary and the Credit Union should be run as fully financially independent operations. The day-to-day operations of the Commissary should be contracted out and run by a suitable organization experienced in the retail trade.”

Agreement with the Host Country and the resulting intractable legal and structural relationship between the Commissary and the FAO.

25. The Committee recalled that the decision to bring the annual audited accounts of the Commissary to the Finance Committee for approval stemmed from Conference Resolution 16/97, and that decision could only be rescinded by the Conference itself.

26. The Finance Committee approved the annual accounts of the Commissary for the year 2007.

Oversight Matters

PROGRESS REPORT ON IMPLEMENTATION OF THE EXTERNAL AUDITOR'S RECOMMENDATIONS

27. The Committee reviewed the report and noted with satisfaction that there had been considerable progress in the implementation of recommendations since the last session of the Finance Committee. The Committee also noted that outstanding recommendations in the report had been reviewed and were either completed or near completion by the Organization.

28. The Committee expressed appreciation to the External Auditor for his work in ensuring significant progress in implementation of recommendations.

REPORTS OF THE UN JOINT INSPECTION UNIT

29. No JIU reports were presented to this Finance Committee session.

CHARTER FOR THE OFFICE OF THE INSPECTOR-GENERAL

30. The Committee took note of the information provided in document FC 123/6 – *Charter for the Office of the Inspector-General*.

Financial Policy Matters

MEASURES TO ENCOURAGE TIMELY PAYMENT OF CONTRIBUTIONS

31. The Committee examined document FC 123/7 and discussed a number of measures to improve the timely payment of contributions to the Organization. The Committee also welcomed the information regarding recent large payments and the updated cash forecasts reported by the Secretariat as part of the Financial Highlights.

32. Whilst recognising that certain countries faced extremely difficult economic situations, the Committee noted that the Regular Programme liquidity situation was critical and that it would only be improved through timely receipt of assessed contributions from Members.

33. The Committee supported all measures currently in place to encourage timely payment by Members and stressed that such measures should be strictly enforced. The Committee noted that to date no Members had expressed interest in the facility to request payment of contributions in non-freely convertible local currencies, under prescribed conditions, as approved by the 34th Conference in November 2007.

34. The Committee agreed to propose the following measures to Council and to defer further discussion of other measures to a later session, when the considerations of the Conference Committee on the IEE could inform the discussions:

- eligible Member Nations should be reminded of the option to request payment in non-freely convertible currencies;

- Member Nations in arrears of more than the amount of contributions due for the two preceding calendar years should be required to submit an installment plan to the Finance Committee for review, and subsequent approval by the Conference;
- at the beginning of each biennium all Member Nations should be encouraged to submit a payment schedule for the payment of their assessed contributions; and
- existing provisions on loss of voting rights should be rigorously applied and any decision on re-establishment of voting rights should be based on clear documentation.

INCENTIVE SCHEME FOR PAYMENT OF CONTRIBUTIONS

35. The Committee recalled its earlier discussions in several past sessions concerning the efficacy and appropriateness of the incentive scheme in the face of rising levels of unpaid current assessments and arrears and the severe consequences on the Organization's liquidity levels. The Committee reviewed document FC 123/8 – *Incentive Scheme for Payment of Contributions* - and noted the Director-General's request for the Finance Committee to confirm that the annual discount rate for 2009 assessed contributions remain at zero, a rate first recommended by the Finance Committee at its session of September-October 2004, endorsed by the Council and re-confirmed by the Committee in 2005, 2006 and 2007.

36. Many members of the Finance Committee felt that the discount scheme was not effective as the budget cycle of Member Nations and other political issues were the overriding considerations that determined the timing of payments to the Organization. Other members considered that it was important to re-instate a moderate discount rate to send a signal to Member Nations and make use of positive incentives to encourage prompt payment of contributions. Some members suggested that the rules of the Scheme, which originated in 1991 and were last modified in 1997, could be re-examined and new features introduced to bring it into line with current conditions and Organization needs.

37. Following the discussion the Committee (apart from one member) agreed to leave the discount rate at zero for 2009 contributions and to so inform the Council. The Committee agreed to return to the subject at future sessions to discuss the issue of incentives for prompt payment, aided by a paper to be prepared by the Secretariat on the issue including an indication of other UN agencies' experiences with incentive schemes.

ANNUAL REPORT ON SPECIAL FUND FOR EMERGENCY AND REHABILITATION ACTIVITIES

38. The Committee recalled that the prime purpose of the Special Fund for Emergency and Rehabilitation Activities (SFERA) was to contribute to FAO's rapid response in crisis situations, which had been significantly strengthened as a result of this flexible tool.

39. The Committee expressed satisfaction with the results from the use of SFERA and appreciation to the donors to the Fund.

40. The Committee noted the advance that had been made from the SFERA to partially offset incremental costs of the High-Level Conference (HLC) on World Food Security: the Challenges of Climate Change and Bioenergy. It recognized the exceptional nature of the food prices situation prevailing at the time of the High-Level Conference that had led the Organization to determine that the event could exceptionally be regarded as an emergency. It noted that SFERA had since been fully replenished by extrabudgetary donor contributions and that no Regular Programme funds had been used to cover incremental costs.

41. The Committee was informed by one member of its concerns about the use of the SFERA in the context of the HLC, and that as a result it would be unable to contribute to the SFERA

REPLENISHMENT OF THE SPECIAL RESERVE ACCOUNT

42. The Finance Committee took note of Conference document C2008/3 which informed members that proposals for replenishment of the Special Reserve Account would be submitted to the 2009 Conference through the Programme of Work and Budget 2010-11.

43. The Finance Committee noted that in connection with the development of proposals for the Organization's reserves, the Secretariat would also examine the function, purpose and accounting treatment of reserves in the context of IPSAS requirements and submit any proposals for revision to the Finance Committee.

Budgetary Matters

ANNUAL REPORT ON SUPPORT COSTS EXPENDITURE AND RECOVERIES

44. The Committee considered the *Annual Report on Support Costs Expenditure and Recoveries* concerning implementation of the FAO Support Cost Policy for the period June 2007 through May 2008. It was satisfied that the project support cost rates for the period under review were applied within the approved policy.

45. The Committee noted with concern the persistent and growing under-recovery of administrative and operational support costs for extra-budgetary activities, as highlighted by the External Auditor and reported in the Programme Implementation Report 2006-07. The Committee was encouraged by the inter-agency consultations on the harmonization of cost recovery policies, where FAO was actively engaged. The Committee supported the proposal to extend the support cost policy to include fixed indirect costs and looked forward to receiving a proposal in the next annual report.

46. The Committee was informed of two financial management risks associated with the increasing magnitude of support cost income: gaps in funding of administrative and operational support services – primarily staff costs – if project delivery varied from plans; and lapsing of unspent support cost income at end-biennium. It also took note of the recommendation in the Immediate Plan of Action to introduce provisions for roll-over of funds between biennia, in order to smooth income and expenditure. The Committee supported in principle a carry-forward mechanism to mitigate the financial management risks of support cost income and requested management to present a proposal for consideration at its session in May 2009.

REVIEW OF PROCEDURES REGARDING FINANCIAL REGULATION 4.5 (B)

47. As a follow up on the discussions at its May 2008 session, the Committee reviewed the procedures regarding Financial Regulation 4.5(b).

48. The Committee noted the legislative history of Financial Regulation 4.5(b)², approved by the Conference at its 9th Session in 1957, as well as past discussions on this Regulation including at the Finance Committee Session in 1972 based on an expert consultation report of 1966, and upon the introduction of the programme-budget system.

49. The Committee examined the practice that it had followed for many years which was designed to reconcile its authority to approve transfers between chapters, during a limited number of short sessions, and the need for the administration to adjust the execution of the programme of

² Financial Regulation 4.5(b) – “(i) Transfers from one chapter of the budget to another relating to expenditures which would not involve additional financial obligations for Member Nations and Associate Members, either current or future, may be effected by the Director-General after having obtained the approval of the Finance Committee, or by the Council between sessions of the Finance Committee. (ii) Transfers from one chapter of the budget to another, other than those for which the Finance Committee has authority, may be effected by the Director-General after having obtained the approval of the Council.”

work and budget to evolving circumstances and unforeseen situations. The Committee considered that it was desirable to improve its practice in the light of the new principles of governing body monitoring and oversight of programme and budget execution in the context of results-based management.

50. Certain principles contained in the Immediate Plan of Action would bring improvements to budgetary oversight. For example, the aggregation of the programme structure and the clear separation of the administrative budget from the substantive budget would allow more meaningful control over chapter transfers. Similarly, involving the Programme Committee in the review of adjustments to the agreed Programme of Work would emphasize the results-based management of the budget.

51. To ensure that it could properly execute its function as described in Financial Regulation 4.5(b) on a continual basis during the biennium, the Committee agreed on a possible reporting procedure:

- In September of the first year of the biennium, the Secretariat would submit to the Programme and Finance Committees for their review, and approval by the latter, an initial plan as a first indication of likely biennial chapter transfers, if any, along with specific explanations. This plan would be updated and submitted to the Committees on a rolling basis throughout the biennium with any updates to the amounts and allocations. If further variations due to legitimate unforeseen situations occur within a nominal margin, the Committees would simply take note of the adjusted figures. If the shifts are larger than a nominal margin, the Secretariat would be required to seek a new Finance Committee approval for the updated budgetary chapter transfers, taking into consideration comments from the Programme Committee.

The Committee requested the Secretariat to elaborate on such a procedure, including the nominal margin, which could range between 1 and 5 percent of the budgetary chapter, for consideration at its next session.

PROGRESS REPORT ON IMPLEMENTATION OF THE TECHNICAL COOPERATION PROGRAMME

52. The Committee expressed general satisfaction for the content of the progress report, noting that it concentrated on the status of approvals and disbursement and was not intended to report on results and impact. While noting the progress achieved in the levels of approvals, the Committee also noted with some concern that, due to late approvals against the 2006-07 appropriation, an amount of USD 45.5 million still remained to be expended against that appropriation. The Committee, therefore, insisted on the need to improve the delivery of approved projects and was informed of the action being taken to better monitor project implementation as well as their results and impact.

53. The Committee noted the importance of the coordination between regional, subregional and country offices and of the role of multidisciplinary teams in the identification of TCP projects which could then be used for resource mobilization from donors, thus resulting in catalytic impact. In this connection, it was noted that the TCP Facility was playing an increasing role, having reached almost 20 percent of 2006-07 appropriation, including at the level of regional and subregional offices.

54. The Committee noted that the ISFP³/TCP projects had been instrumental in ascertaining governments' commitment and were expected to play a significant role in mobilizing larger donor contributions. However, in clarifying the recommendation made in the report of its 122nd Session of the Finance Committee on the use of TCP resources for agricultural input supply within the ISFP, the Committee indicated that due consideration should also be given to responding to other

³ ISFP – Initiative on Soaring Food Prices

priority requests for TCP assistance, including for preparing longer-term action for reducing the impact of soaring food prices. In this context, the Committee was given assurance that all requests received to date for short-term input supply projects had been addressed and that in the meantime, all other requests continued to receive normal treatment.

55. The Committee requested to receive an updated progress report on the implementation of the TCP at its next session in May 2009.

Human Resources Matters

PROGRESS REPORT ON IMPLEMENTATION OF HUMAN RESOURCES MANAGEMENT STRATEGY AND POLICY FRAMEWORK

56. The Committee expressed its appreciation for the HR Strategy and Policy Framework presented by the Secretariat pursuant to the request made at its last session.

57. The Committee endorsed the strategic objectives outlined in the framework and acknowledged the comprehensive nature of these objectives. It underscored the need for the Secretariat to prepare a well-defined plan with timelines and measurable indicators for the implementation of the actions prescribed in the strategy. In this connection, the Committee was informed that a more detailed plan would be prepared and presented in the Medium Term Plan 2010-13 and Programme of Work and Budget 2010-11. In this context, the Committee also called upon the Secretariat to identify areas within the HR framework where joint activities could be undertaken by the Rome-based UN agencies..

58. The Committee requested that a progress report be presented in 2009 on the implementation of the strategy and further reaffirmed that, in the future, human resources management would constitute an area in which it would be more involved.

PROFESSIONAL AND GENERAL SERVICE STAFFING IN FAO

59. The Committee took note of the information provided in document FC 123/15.

STAFFING LEVELS AND CURRENT AND PROJECTED COST SAVINGS AT THE SHARED SERVICES CENTRE, BUDAPEST

60. The Committee was provided a presentation of the content of the report covering background information on the establishment of the Shared Services Centre (SSC) Hub in Budapest, the achievements and plans for 2008-09, the current and projected staffing levels, and some issues faced during implementation. The Committee was informed that an evaluation of the implementation would not be possible until after one year of full operations, since a phased approach had been adopted. A detailed explanation of the latest biennial savings calculation, which remained consistent with the figure of USD 8 million envisaged in the PWB 2008-09, was also given.

61. The Committee noted the information provided. Two members of the Committee had visited the Budapest office in September and commented favourably on the report and the outcome of their visit.

62. The Committee also recommended to consider offshoring more functions, supporting the preliminary findings of the Root and Branch review, and to continue to seek synergies amongst the Rome based agencies, and other UN agencies when appropriate, in the delivery of shared services.

63. The Committee requested that progress continued to be reported in future sessions.

FAO USE OF CONTRACTORS AND RETIREES

64. The Committee welcomed the document presented on the use of non-staff human resources and retirees. It noted with appreciation that a revised policy framework was envisaged by the Secretariat on the use of retirees which would adhere to the IEE recommendations, covering matters such as the minimum break in service prior to the re-employment of former staff and establishing criteria that would govern the hiring of retirees. The Committee requested that it be informed at its next session of a revised policy and the implementation plan .

Organizational Matters

REVIEW OF THE DRAFT REPORT OF THE CONFERENCE COMMITTEE FOR THE FOLLOW-UP TO THE IEE, AND CONSIDERATION BY THE FINANCE COMMITTEE OF THE IMPLEMENTATION OF THE IMMEDIATE ACTION PLAN, WITH A FOCUS ON ITS COST AND FUNDING MODALITIES

65. The Finance Committee examined the document on Cost and Funding Modalities of the Immediate Plan of Action , as requested by the Conference Committee for IEE follow-up. It noted that this document updated the *Preliminary Schedule of Cost and Savings* which had been presented to the Joint Meeting of CoC-IEE Working Groups I, II, and III on 3 September 2008 and that it also included as a new element the tentative cost and savings estimates prepared by Ernst & Young in their Stage 1 Deliverable of the Root & Branch Review.

66. While the Committee asked for clarification on a certain number of costs and savings elements in the document, it acknowledged that the costs remained preliminary at this stage, in particular as regards the Root and Branch Review initiatives. It concluded that the figures provided an acceptable indication of the order of magnitude of the overall costs and savings that would stem from the implementation of the Immediate Plan of Action and the Root and Branch review initiatives.

67. The Committee noted in this regard that, in 2009, the full implementation of the IPA was expected to require total resources of USD 18.2 million (USD 13.1 million in one-time investment costs and USD 5.1 million in recurrent costs) and that the Root and Branch Review initiatives was expected to require a further USD 7.5 million (USD 4.5 million in one-time investment costs and USD 3.0 million in recurrent costs). Given that funding sources of USD 3.9 million had already been identified, total preliminary and tentative extra-budgetary funding requirements for 2009 would be approximately USD 21.8 million (USD 14.7 million in one-time investment costs and USD 7.1 million in recurrent costs).

68. The Committee recalled that investment and recurring costs for 2010-2011 would be further reviewed in the context of the preparation of an integrated Programme of Work and Budget 2010-11 that would cover both assessed and voluntary contributions.

69. The Committee highlighted that the Immediate Plan of Action and its costings provided a sound rudimentary blueprint to reform. While further sequencing and prioritization of actions and funding needs would be required over the coming months, the Committee believed it was imperative to seize the positive momentum generated by the reform process to date and to launch, prior to the 2008 Conference, a strong appeal to Members for funding the important initiatives in the Immediate Plan of Action. In order to have an appropriate mechanism to collect such voluntary funding, the Committee recommended the establishment of a dedicated Trust Fund.

70. While voluntary funding was considered crucial to the launching and implementation of the Immediate Plan of Action as soon as possible after approval, the Committee stressed the importance of considering all avenues for identifying resources. For example, in its role of oversight of financial administration, the Finance Committee could assist in identifying potential Regular Programme funds for the Immediate Plan of Action while ensuring that the Programme

of Work 2008-09 is fully implemented as planned. Such funds could become available, for example, through windfall savings or from freed up Regular Programme resources as a result of extra-budgetary contributions in support of technical programmes.

71. Finally, the Committee highlighted the importance of establishing a clear follow-up mechanism for monitoring the financial aspects of the implementation of the Immediate Plan of Action. The Finance Committee agreed to propose to the Conference Committee that the Finance Committee be entrusted with the responsibility of reviewing the use of the Trust Fund of the Immediate Plan of Action. In this regard, given the importance of launching the Immediate Plan of Action as soon as possible, the Committee believed that a Special Session of the Finance Committee may be desirable in January 2009.

WORKING METHODS OF THE FINANCE COMMITTEE

72. The Committee expressed satisfaction with the improved format and timeliness in preparation of documents for the session and congratulated the FAO Secretariat for this improvement. It requested that in future each Finance Committee document include: an Executive Summary; the name and contact details of the author; and clear indication of the Committee's responsibility in respect of the related agenda item.

73. The Committee welcomed the excellent audio-visual introductions made by the Secretariat to a number of items during the course of the 123rd Session, and encouraged the Secretariat to pursue this method of presentation in future sessions.

74. The Committee also discussed the possibility of electronic meetings and discussions in-between sessions and agreed to examine this at subsequent sessions.

World Food Programme Matters

UPDATE ON THE WFP MANAGEMENT PLAN (2008-2009)

75. The Committee welcomed the detailed and transparent nature of the document and noted the extensive consultation process that had taken place with the Executive Board of WFP.

76. The Committee observed that 85 of the 87 additional Programme Support and Administrative (PSA) professional posts planned were for Headquarters (HQs) functions, including a large proportion for Management and Administration. Some members felt that there should be a balance in generating additional capacity between HQs and the field functions. Several members suggested the need for a more concrete risk management and contingency plan to assure surge capacity is provided to flexibly respond to priority emergencies in a sustainable manner that matches staff increases to actual level of activities in 2009. They emphasized a need to use PSA resources in an innovative manner to possibly reduce Direct Support Costs (DSC) in an environment of limited resources.

77. The Secretariat explained that the nature of PSA is mainly for support funding in Headquarters and that many of the field capacities would be funded from the main operational part of the Programme of Work. In regards to distribution of posts, the Secretariat explained that many of the posts were to support country offices in new types of work arising from the food crisis and contained in the Strategic Plan.

78. Some members of the Committee inquired about Strategic Objective 3 activities and noted the emphasis expressed by WFP management on the importance of cooperation between FAO, IFAD and WFP, as well as cooperation with the World Bank on activities relating to long-term response to high food prices.

79. The Committee supported the supplemental PSA proposals contained in the document.

**REPORT OF THE EXTERNAL AUDITOR ON RESULTS-BASED
MANAGEMENT
AND
RESPONSE OF THE SECRETARIAT TO THE REPORT OF THE EXTERNAL
AUDITOR ON RESULTS-BASED MANAGEMENT**

80. The External Auditor introduced the report noting that this was a follow-up report to that issued in 2006 on Results-Based Management (RBM) in WFP. The External Auditor and the Secretariat responded to questions from the Committee on the External Auditor's report and the Secretariat responses and confirmed the commitment of the WFP Management to RBM while recognising the challenges faced.

81. The Committee noted that the implementation of RBM in WFP should be considered as work in progress and that further substantial efforts were needed. The Committee recommended that an evaluation of all aspects and implications of RBM should be considered and reiterated the importance of implementing the recommendations within the deadlines indicated by the Secretariat.

UPDATE ON THE WINGS II PROJECT

82. The Committee took note of the updated information contained in the report and noted the risks highlighted by the Secretariat regarding the roll out in January.

83. The Committee welcomed the Secretariat's statement that implementation timelines were challenging, but overall on schedule, and that contingency plans were in place should these be needed.

**AUDIT STRATEGY – PROGRAMME OF WORK OF THE EXTERNAL
AUDITOR FOR THE 2008-2009 BIENNIUM**

84. The External Auditor advised that the document which was for information was still under preparation but that he hoped to complete the document in time for submission to the Executive Board at its October session.

85. The Committee expressed concern that the document for this item was not available for review by the Committee and were concerned that the document would be submitted to the Executive Board without their advice.

APPOINTMENT AND RE-APPOINTMENT OF THE EXTERNAL AUDITOR

86. The Secretariat explained that the document had not been released by the Bureau of the Executive Board and would not be submitted to the October session.

87. The Committee expressed concern that this document was once again withdrawn without a fuller explanation.

Other Matters

DATE AND PLACE OF THE HUNDRED AND TWENTY-FOURTH SESSION

88. The Committee was informed that the 124th Session was tentatively scheduled to be held in Rome from 11 to 15 May 2009. The final dates of the session would be decided in consultation with the Chairperson.

ANY OTHER MATTERS

89. In the context of the Organization's review of the many one-time change initiatives identified from the IEE process within the Immediate Plan of Action and the Root and Branch Review, the Committee was informed that the Secretariat was revisiting its planning assumptions for all major projects, including the effort to implement IPSAS and the opportunities this project offered for synergies with other planned IT systems initiatives. At its May 2008 session the Committee was informed that IPSAS was planned to be achieved in two phases, with initial IPSAS compliance in 2010 and final compliance by the end of 2011. The Committee was advised that, given the competing initiatives for many key staff required to contribute to IPSAS implementation in both 2009 and 2010, a later target date for IPSAS compliance was now under consideration. The Committee noted the steps the Secretariat had to take and re-emphasised the importance of the successful and expeditious implementation of IPSAS.