



REPORT AND RECOMMENDATIONS OF THE THIRTY-FIFTH MEETING OF THE FINANCIAL ADVISORY COMMITTEE TO THE SIXTY-EIGHTH SESSION OF THE EXECUTIVE COUNCIL

Introduction

1. The Financial Advisory Committee (FINAC) held its thirty-fifth meeting at the WMO headquarters on 13 and 14 June 2016. The approved agenda of the meeting and the list of participants appear in Annexes 1 and 2 of this information paper.

Substantive items (*agenda item 4*)

Review of documents having financial implications (agenda item 4.1)

(a) Report of the Audit Committee (*agenda item 4.1.1*)

2. The report of the Audit Committee to EC-68 is contained in EC-68/INF. 16.1(3). The recommendations of the Audit Committee to the Executive Council and Management were noted. FINAC expressed the need to consider the impact of unpaid contributions and appropriate mitigation measures. FINAC expressed appreciation for the work of the Audit Committee and the improved format and content of their report. FINAC requested that future reports of the Audit Committee include a section on the working of the ethics function, in accordance with the Terms of Reference of the Audit Committee. FINAC noted the intention to improve the Audit Committee's effectiveness and looked forward to receiving the outcome of the self-assessment

(b) Financial statements for 2015, including the report of the External Auditor (*agenda item 4.1.2*)

3. FINAC appreciated the work of the external auditor, the risk-based approach and resulting recommendations. FINAC has also noted that all recommendations were accepted by the Secretary-General. They also appreciated that most of the recommendations arising from previous audits have been closed but also requested that a timeline be given for the implementation of the three remaining old recommendations. Regarding the future audit recommendations including internal audit recommendations, the Committee requested the Secretary-General to establish timeframes for implementation.

4. FINAC noted with concern the risk to WMO in the delay of payment of assessed contributions and noted the increasing trend in delay of these payments. The Committee noted that the voluntary contributions have dropped significantly over the last two years. The Committee noted that one of the objectives of the Secretary-General is to increase funding from voluntary contributions, to which end WMO has just been accredited to the Green Climate Adaptation Fund.

5. The Committee noted that the WMO consolidated entity ended the year 2015 with an overall IPSAS deficit of CHF 21.9 million and that this represents an increase of CHF 7.1 million (47.8%) from the IPSAS deficit of CHF 14.8 million in 2014. The Committee noted that the deficit resulted from: (a) a decrease of CHF 3.0 million in voluntary contributions (on the back of another decrease of CHF 17.1 million from 2013 to 2014); and (b) an increase of CHF 4.6 million in expenditure, which, in turn, represents increases in payroll costs, IT support, and provisions for delayed collection of contributions.

6. The Committee noted that revenue amounted to CHF 79.6 million in 2015, and that this represents a decrease of CHF 2.5 million (3.0%) from CHF 82.1 million in 2014. The Committee noted that this decrease comes at the back of another decrease of CHF 16.0 million (16.3%) from 2013 to 2014. The Committee noted that the decrease is primarily due to the fact that in recent years WMO received large multi-year voluntary contributions from donors which was not the case in 2015. The Committee further noted that WMO has adopted a more conservative approach to recognition of revenue, deferring recognition to future years if the payment of the contribution is subject to fulfilment of certain conditions.

7. The Committee noted that WMO total expenditure amounted to CHF 101.5 million in 2015 and that this represents an increase of CHF 4.6 million or 4.7% from 2014. The Committee noted that the increase resulted from: (a) an increase of CHF 2.7 million (4.8%) in payroll and related costs; (b) an increase of CHF 1.8 million (441.0%) in finance costs, mainly provision for delayed payment of Member contributions; and (c) an increase of CHF 1.4 million (74.4%) in IT-related expenditure.

8. Recalling that the year 2015 was also the end of the sixteenth financial period (2012-2015), the Committee noted that, on the basis of the approved financial statements for 2012, 2013 and 2014 and the financial statements for 2015 submitted to EC-68, the total expenditure incurred during the sixteenth financial period 2012-2015 amounts to CHF 275.1 million, representing 99.7 per cent of the maximum expenditure of CHF 276.0 million authorized by Sixteenth Congress (2011) for the financial period. The Committee noted that, in accordance with Article 14.6 of the Financial Regulations of WMO, the Secretary-General will submit in 2017, in addition to the financial statements of 2016, the final statement of the total expenditures made in respect of the sixteenth financial period 2012-2015.

9. The Committee noted that Contributions Receivable increased by CHF 5.8 million (24.6%) from CHF 23.6 million at 31 December 2014 to CHF 29.4 million at 31 December 2015. The Committee noted that the main component of the increase was assessed contributions receivable from Members, which had increased by CHF 4.9 million.

10. The Committee noted that WMO's liabilities for employee benefits amounted to CHF 67.4 million at 31 December 2015, representing an increase of CHF 5.4 million (8.7%) from CHF 62.0 million at 31 December 2014. The Committee noted that the increase is mainly due to a net actuarial loss on the benefits which in turn resulted in an increase in the liabilities. The Committee further noted that the sources of this actuarial loss are: (a) a decrease in the discount rate applied to the liability for After-Service Health Insurance (ASHI), from 1.22% at 31 December 2014 to 1.00% at 31 December 2015, which resulted in an increase of about 3.2% in the liabilities; and (b) a change in the employee membership profile which resulted in an increase in the liabilities of about 2.0%. The Committee further recalled that, while short-term costs of the benefits are being funded from a reserve set up for this purpose, the long-term liabilities are not funded. The Committee noted that the Secretariat has prepared a separate document on this matter (agenda item 18.1(3)).

11. The Committee noted that although the current assets decreased by 12% from 2014, primarily resulting from a decrease of 23% in cash and cash equivalents, the Organization's total current assets of CHF 114.4 million were adequate to cover its total current liabilities of CHF 47.9 million at 31 December 2015 by more than two times.

Recommendation 1:

That the Executive Council adopt draft Resolution 18.1/1 (EC-68) – *Financial Statements for 2015*.

(c) Status of Member contributions (*agenda item 4.1.3*)

12. The Committee recalled that, in accordance with Financial Regulation 8.9, the Secretary-General submits to the regular sessions of the Executive Council a report on the collection of contributions and advances to the Working Capital Fund. The schedule showing the status of assessed contributions and advances to the Working Capital Fund as at 31 May 2016 is presented in EC-68/INF. 18.1(2). The Committee noted that 47% of the unpaid contributions at the beginning of 2016 remained outstanding at 31 May 2016, compared to 45% at the same time in 2015. The Committee also noted, however, that 127 Members had paid some contribution during the first five months of 2016, compared to 118 Members during the first five months of 2015. The Committee noted that the outstanding balance is significant and that delayed payment may have a serious impact on the implementation of approved programmes.

Recommendation 2:

That the Executive Council urge Members with unpaid contributions to settle their dues as early as possible.

(d) Scale of assessments for the years 2017-2019 (*agenda item 4.1.4*)

13. The Committee recalled that, in Resolution 75 (Cg-17) – Assessment of proportional contributions of Members for the seventeenth financial period, Congress authorized the Executive Council to “adjust the scale of assessments for the years 2017 to 2019 using the United Nations scale of Assessments to be adopted by the General Assembly of the United Nations in 2015 ...”. The Committee noted that the proposed scale of assessments has been based on the United Nations scale of assessments adopted by the United Nations General Assembly in December 2015 and duly adjusted for differences in membership, in accordance with the guidance from Sixteenth Congress. It also noted that the minimum rate of assessment was retained at 0.02 per cent and that corrections have been made to ensure that no Member's rate of assessment would increase to a level which would exceed 200 per cent of the WMO scale for 2015.

Recommendation 3:

That the Executive Council adopt the scale of assessments of proportional contributions of Members for the years 2017-2019 as proposed by the Secretary-General in draft Resolution 18.2/1 (EC-68) - *Scale of assessment of contributions of Members for 2017-2019*.

(e) Proposed plan for funding long-term liabilities for employee benefits (*agenda item 4.1.5*)

14. The Committee recalled that, in Resolution 73 (Cg-17) – Plan for funding liability for after-service health insurance, Congress requested the Secretary-General to: (a) submit a proposal to the Executive Council that will take into account the decision of the General Assembly of the United Nations at its seventieth session (UNGA-70) on ASHI when this is available, and authorized the Executive Council to take a decision; and (b) submit proposals for appropriate short-term measures to manage and contain the WMO ASHI liability, should the decision of the General Assembly not be available by the end of 2015, and to report to the Executive Council at its sixty-eighth session for review and approval, as appropriate. The Committee reviewed the Secretary-General's proposals, contained in EC-68/Doc. 18.3. The Committee noted that the UN Working Group on ASHI funding (WG) provided an interim report to UNGA-70 with eight recommendations, the implementation of which requires further work to be done by the WG. The Committee noted that most of the options available for WMO require coordination with other UN system organizations through the WG. The Committee noted further that the terms of reference of the WG include those described in Resolution 73 (Cg-17).

Recommendation 4:

That the Executive Council requests the Secretary-General:

- (a) To proactively collaborate through 2016-2017 with Members and other Geneva-based UN organizations to identify specific measures that could be implemented for containing ASHI costs in the short-term, as requested in Resolution 73 (Cg-17), irrespective of the timing of the decision of the UN General Assembly on this matter with the aim of presenting options to EC-69;
- (b) To analyse the long-term viability of the current ASHI scheme by showing the long-term trend of the ASHI expense for each year and of the remaining balance of the ASHI liability.

Recommendation 5:

That the Executive Council recommend to Congress that the Secretary-General apply any amount that may become available without increasing Members' contributions, such as surplus at the end of financial period or other suitable sources.

Plan and budget matters – as per agenda in Annex 1 (agenda item 4.2)

(f) Improved budget structure (agenda item 4.2.1)

15. The Committee recalled that, in approving the WMO budget for the seventeenth financial period, Cg-17, in view of the need to consider re-scoping activities and Programmes to ensure that WMO resources are aligned with the priorities identified in the Strategic Plan 2016–2019, requested the Secretary-General to, among other things, "include information on the costs of the WMO activities and Programmes and the detail of costs by object of expenditure in the budget proposals for the second biennium (2018–2019) of the seventeenth financial period and the eighteenth financial period (2020–2023)". The Committee reviewed the Secretary-General's proposals, contained in EC-68/Doc. 16.2(1). The Committee noted that the Secretary-General's proposal does not intend to replace the existing framework for the approval of the WMO budget which remains based on Expected Results, or to alter the flexibility provided to the Secretary-General in managing the budget, but that it addressed the request of Congress by complementing the information provided through the traditional budget structure based on eight Expected Results with programme-based information. The Committee welcomed the proposed budget structure and noted that it reflects the views and recommendations of the EC Working Group on Strategic and Operational Planning, and generally their own expectations. Some members indicated a need for inclusion of more detailed and itemized budget information on e.g. staff costs, meetings and travel costs. The Secretariat cautioned against this approach, and recalled that whilst more detailed information could – and would - be provided for the purpose of ad hoc analysis, their regular inclusion in the budget proposals would increase again the level of granularity of the document, making its analysis more difficult. There was general agreement on the fact that information on staff resources (Full Time Equivalent - FTE) should be included in the budget information as they would add value in the analysis of budget proposals. The Secretariat took note of the various suggestions for consideration in the future.

Recommendation 6:

- (a) That the Executive Council request the Secretary-General to include in the improved budget structure the full-time equivalent (FTE) of the posts by Programme and details on the assumptions made in the calculations of standard rates for salaries as well as overall trends related to staff costs and benefits;

- (b) That the Executive Council adopt the draft Decision 16.2(1)/1 - *Improved budget structure*, as amended above.

(g) Status report and way forward on budget-related matters (*agenda item 4.2.2*)

16. The Committee recalled that, in approving the WMO budget for the seventeenth financial period, Congress requested the Executive Council, in close cooperation with the Secretariat, to establish required mechanisms in order to review WMO activities and Programmes and to consider additional efficiencies and savings, re-scoping of activities and the use of programme support costs associated with voluntary contributions, as well as the associated risks and opportunities. The Committee reviewed the status of progress on this matter, contained in EC-86/INF. 16.2(1). The Committee noted that considerable work has been done in the definition of an improved budget structure that meets the information requirements of Members and is sufficiently flexible and simple to be used for the budget process. The Committee further noted that: (a) the efficiency and savings initiatives identified as part of the budget proposals have been initiated and are being implemented as planned; and (b) budget reduction measures that have been identified and implemented are satisfactory. The Committee was encouraged by the progress and requested the Secretary-General to provide a further update to EC-69, especially on the additional initiatives that are being studied. Some members requested that the Secretary-General submit a report that quantifies savings achieved in 2016-2017 and possible future savings, and also indicates consequences resulting from the savings measures.

Recommendation 7:

- (a) That the Executive Council note the progress made by the Secretary-General in identifying additional efficiencies and savings, as well as budget reduction measures requested by Congress;
- (b) That the Executive Council request the Secretary-General to submit to its sixty-ninth session a report that details progress made in the implementation of savings to be achieved in 2016-2017 as well as possible future savings, quantifies them and also indicates consequences resulting from the savings measures.

(h) Date and place of the thirty-sixth meeting (*agenda item 6*)

17. The Committee decided that the next meeting should be held in conjunction with the sixty-ninth session of the Executive Council.

ANNEX 1

**AGENDA OF THE THIRTY-FIFTH MEETING
OF THE FINANCIAL ADVISORY COMMITTEE**

1. Opening of the meeting by the President
2. Approval of the agenda
3. Introductory statement by the Secretary-General
4. Substantive items:

<u>Agenda</u>		<u>EC</u>
<u>item</u>	<u>Item description</u>	<u>Doc./INF. number(s)</u>
4.1	<i>Financial matters</i>	
4.1.1	Report of the Audit Committee	INF. 16.1(3)
4.1.2	Financial statements for 2015, including Report of the External Auditor	Doc. 18.1 INF. 18.1(1) INF. 16.1(2)
4.1.3	Status of Member contributions	INF. 18.1(2)
4.1.4	Scale of assessments for the years 2017- 2019	Doc. 18.2
4.1.5	Proposal for funding liability for After-Service Health Insurance (ASHI)	Doc. 18.3 INF. 18.3
4.2	<i>Plan and budget matters</i>	
4.2.1	Improved budget structure	Doc. 16.2(1)
4.2.2	Status report and way forward on budget- related actions	INF. 16.2(1) INF. 16.2(3)

5. Adoption of the report of the Financial Advisory Committee to EC-68 [INF. 16.1(5)]
6. Date and place of the thirty-sixth meeting

ANNEX 2

LIST OF PARTICIPANTS TO THE THIRTY-FIFTH MEETING
OF THE FINANCIAL ADVISORY COMMITTEE

		<i>Title Name</i>	<i>Assisted by:</i>
Core members	WMO President	Dr D. Grimes	
	President RA I	Dr A. Makarau	
	President RA II	Mr A.M.A. Al-Mannai	
	President RA III	Lic J. Báez	
	President RA IV	Mr J.C. Fallas Sojo	
	President RA V	Dr A.E. Sakya	
	President RA VI	Mr I. Čačić	
WMO Members	Algeria	Mr S. Meziane	
	Australia	Mr J. Gill	S. Barrell G. Alblas
	British Caribbean Territories	Mr T. Sutherland	
	Canada	Mr D. Grimes	M. Crowe H. Aucoin
	China	Mr X. Xu	
	Curacao	Mr A. Martis	
	Ethiopia	Mr F. Teshome	M. Mulugeta H. Amsalu K. Endashaw
	Fiji	Mr R. Kumar	
	Finland	Ms M. Hurtola	H. Pietarila
	France	Mr B. Strauss	Mr P. Ramet
	Germany	Mr A. Thomalla	
	Guinea	Mr M.L. Bah	
	Indonesia	Dr A. Sopaheluwakan	Guswanto B.R. Rievan H. Herawati M.K. Dewi
	Italy	Col. S. Cau	L.M. Michaud G. Giallatini
	Japan	Mr H. Koide	Y. Tanaka J. Hasegawa H. Kitahata A. Minami T. Kurino
	Morocco	Mr A. Mokssit	

Poland	Prof. M. Ostojski	J. Filipiak E.W. Pudlinska
Qatar	Mr A.M. Al-Mannai	R. Monikumar S. Al-Harmi
Republic of Korea	Mr I. Seong	S. Park J. Lee
Russian Federation	Mr A. Nurullaev	
South Africa	Dr L. Makuleni	
Spain	Mr S.G. Dominguez	G.S. Fernandez
Switzerland	Mr A. Rubli	S. Sigrist G. Ulmann
Togo	Mr A. Affo-Dogo	
United Kingdom	Ms J. Wardle	A. Fenton
USA	Ms C. Draggon	C.E. Covington A. Mayer A. Gonzalez D. Muller

**Vice-Chair,
Audit
Committee**

Mr G. Miller

**External
Auditor**

<i>Title</i>	<i>Name</i>
Mr	D. Monnot

Assisted by:

**WMO
Secretariat**

Secretary-General	Mr	P. Taalas	
Assistant Secretary-General			E. Manaenkova
Director, Resource Management Department			A. Rolli
Chief, Budget Office			T. Mizutani
Budget Analyst			A. Rofes
Chief, Finance Division			L. Ngwira
Accountant			B. Cruz
Treasurer			S. Baldwin
Finance Officer			K. Paratian
