



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON  
FINANCE AND ADMINISTRATION**

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THIRTIETH SESSION  
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Kuala Lumpur, Malaysia

**REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL**

**THIRTIETH SESSION OF THE  
COMMITTEE ON FINANCE AND ADMINISTRATION**



### **Item 1: Opening of the Session**

1. The Chairperson of the Committee on Finance and Administration (CFA), Mr. Gilbert Kaya of the Republic of Congo, welcomed all delegates to the Thirtieth Session of the Committee.

### **Item 2: Adoption of Agenda and Organization of Work**

2. The Chairperson referred to the Provisional Agenda as contained in document CFA(XXX)/1 Rev.1. He opened the floor for comments on the proposed agenda.

3. The delegate of the Central African Republic requested the Committee to consider their letter requesting write-off of arrears as was done in the case of Liberia in the past. The Chairperson confirmed that this item will be raised under Item 15 of the Provisional Agenda, "Other Business." As there were no further issues raised, the Committee adopted the Provisional Agenda as contained in document CFA(XXX)/1 Rev.1.

4. The Chairperson proposed that the Committee takes up the Agenda items one by one as listed in the Provisional Agenda. However, due to the importance of the issue of impairment of investment, agenda item 9, Report of the Independent Public Accountants, was decided to be introduced right after item 4. It was also proposed that item 10, Staff Regulations and Rules, be introduced before moving on to item 5, Draft Biennial Administrative Budget for the years 2016 and 2017, to see if there will be substantial discussions, since item 10 may have financial implications to the Draft Administrative Budget.

### **Item 3: Admission of Observers**

5. The Chairperson advised the Committee that the Council had admitted all applicants except Bruno Manser Funds as shown in document ITTC(LI)/Info.3 which lists states, inter-governmental and non-governmental organizations applying for Observer status.

### **Item 4: Reports of the Expert Panel for Technical Appraisal of Project Proposals**

6. The Chairperson advised the Committee that the Report of the Forty-eighth and Forty-ninth Meetings of the Expert Panel for Technical Appraisal of Project Proposals (Documents ITTC/EP-48 and ITTC/EP-49) were deliberated and concluded at the Joint Session of the Committees convened on 16 November 2015. The Joint Session had not requested the CFA for any follow-up.

### **Item 5: Draft Biennial Administrative Budget for the Years 2016 and 2017**

7. The Secretariat presented the Draft Administrative Budget for the 2016 and 2017 Financial Biennium as contained in Document CFA(XXX)/2 Rev.1 dated 16 November 2015. The version of the Draft Administrative Budget for the 2016 and 2017 Financial Biennium [Document CFA(XXX)/2] dated 31 July 2015 was circulated to the Committee Members earlier, which contained explanatory notes for each budget heading. The revision was subsequently made to reflect the payment of assessed contributions from Thailand, who became Members after 31 July 2015.

8. The 2016-2017 biennium budget was constructed using the United Nations official exchange rate for July 2015 of 1 US\$ = Yen 123.41. The budget for 2016 had been estimated at US\$7,435,997 and the budget for 2017 has been estimated at US\$7,112,522. The total budget for 2016 represents a decrease of US\$253,508 (3.30%) compared to the approved budget for 2015 and the total budget for 2017 represents a decrease of US\$576,983 (7.50%) compared to the approved budget for 2015. The decrease in the budgets for the biennium was mainly due to weakening of the Japanese Yen against the US Dollar. In preparing the 2014-2015 budget, the prevailing exchange rate was 1US\$ = Yen 98.23. For the 2016-2017 budget the exchange rate was 1US\$ =Yen 123.41.

9. It was noted that Rule 3 of the Financial Rules and Rules Relating to Projects of ITTO states inter-alia that "should very exceptional circumstances so require, the Executive Director may submit to the Council proposals for supplementary expenditure during any financial year.

10. The "Basic Administrative Costs" for the 2016-2017 biennium as shown in Table 1 (pages 3-4) indicates a decrease of US\$300,508 (4.42%) for 2016 compared to the budget of 2015 and a decrease of US\$583,983 (8.59%) for 2017 compared to the budget of 2015.

11. The Secretariat reported that new elements introduced into the Basic Administrative Costs component of the Budget for 2016-2017 were the following:

- Hiring of accreditation experts and domain knowledge experts to improve and strengthen its proposal to the Green Climate Fund (GCF). The amount of US\$50,000 was proposed in 2016 to cover the costs of the consultancy. (E1. Consultants);
- A provision of \$30,000 for 2016 to complete the training and verification process for the proper implementation of the International Public Sector Accounting Standards( IPSAS) (G8. Audit) which started in 2015;
- Pursuant to the recommendations of the CFA at its 29<sup>th</sup> Session, the ITTO Secretariat had prepared recommendations for amendments to the ITTO Staff Rules and Regulations. The major financial implication to the budget was \$133,000/year increase (D2. Accident/Health Insurance) for amendments to Rule 504 (Accident and Health Insurance.);
- The positions of Project Manager in the Division of Forest Management, Programme Assistant (50% charged to Programme Support), Fellowship Assistant, which are core positions of the Organization, were proposed to be moved from the Programme Support to the Administrative Account. The increase in the Basic Administrative Costs (A. Salaries and Benefits) was estimated at US\$430,000 per year; and
- Additional provisions were made for 2016 in A11. Separation Benefits, A12. Removal Costs, A13. Repatriation/Recruitment Travel, B1. Assignment Grant, B2. Lump-sum Benefit for the separation of three (3) staff in the Professional and Higher Category who will be reaching their retirement age or the end of their mandate and the recruitment of their replacements.

12. The "Core Operational Costs" shown in Table 2 (page 5) indicated an increase of US\$47,000 (5.26%) for 2016 compared to the budget of 2015 and an increase of US\$7,000 (0.78%) for 2017 compared to the budget of 2015. The main additions to the budget were as follows:

- **R1.Market Information Service (MIS):** An increase of US\$7,000 per year was proposed to allow modest increases for correspondents whose performance justifies it; and
- **S2.Biennial Review:** As the Biennial Review of the International Timber Situation (Article 28 of the ITTA, 2006) becomes due in 2016, US\$40,000 was set aside for its production.

13. The assessed contributions of Members for the 2016 and 2017 biennium were attached as Annex III.

14. The delegate of the Unites States of America inquired the reasons for the significant increase in budget items A.7 Home Leave, A.11 Separation Costs, and D.2 Accident and Health Insurance. The Secretariat provided the reasons as contained in the explanatory notes in Document CFA(XXX)/2 dated 1 July 2015.

15. The delegate of Papua New Guinea sought clarifications from the Secretariat whether the investments in question had been reflected in the expenditure statement in the document. The Secretariat informed that the investments are in the Special Account and therefore presented separately from the Administrative Account.

16. The delegate of Japan inquired which budget headings would be affected by the amendment to the Staff Regulations and Rules. The Secretariat responded that the major change would be an increase in D.2 Accident and Health Insurance, should the modification proposed in Rule 504 as presented in Document CFA(XXX)/7 be adopted.

17. The delegate of the United States of America requested the Secretariat to include a detailed monthly cash management statement as well as a detailed expenditure report in future statements of the Administrative Budget, and that they can recommend the proposed budget should this request be met. The Secretariat took note of the request.

18. The delegate of Switzerland, followed by the delegate of the European Union (EU), requested the Secretariat to give reasons as to why the three positions currently financed under the resources of the Special Account, namely, the Programme Support Costs, are to be moved under the Administrative Budget. The delegate of Germany noted that when the restructuring of the organization took place, the general idea was to decrease the number of posts as there were too many, and also to decrease the number of posts that were being funded by the Programme Support Costs, as the source of funding was dwindling and unstable. At that time some of the core positions, or non-project positions, such as the Monitoring Officer, were financed under the Programme Support Cost, which was not a healthy way of financing the position.

19. The delegate of the EU stated that, even though the proposed biennial budget for 2016-2017 has a decrease compared to the previous biennium, this is mainly due to the fact that the budget was prepared on the basis of the exchange rate of July 2015 and that it does not give good reason to sustainably finance these three positions from the Administrative Account in the future years due to fluctuations in the foreign exchange rate. The delegate of EU stated that it would be prudent to adopt the average rate of the foreign exchange of the last two years to have a realistic view of the costs involved. The delegate of the EU added that there are too many high positions in the ITTO Secretariat compared to other international organizations, and that less funding to projects means less work on projects, which should be reflected in the workload of the Secretariat and the number of its posts.

20. The delegate of the EU, followed by Switzerland, requested that the Terms of Reference and details of cost implications of these three positions be made available to the Committee.

21. The delegate of the EU proposed that the accreditation to the GCF be deferred to the year 2017 or later due to the adverse effects of the loss of investment of \$6 million, thus recommended that this component of \$50,000 in E.1 Consultants, be removed from the 2016 proposed budget. The Secretariat noted the proposal.

22. The delegate of Switzerland raised the issue where the investigation on investments shall be financed from. The Secretariat responded that the Working Capital Account may be the source. Following the inquiry from the delegate of the European Union, the Secretariat informed the Committee that there is no cap to the Working Capital Account, and any savings from the Administrative Budget as well as assessed contributions received late, will be added to this account. The Secretariat further informed the Committee that any utilization of the Working Capital Account shall be decided by Council.

23. The delegate of the European Union requested the Secretariat to provide the average balance of the Working Capital Account, the minimum balance of the Working Capital Account, and whether there was any problem in the cash flow of this account in the past. The delegate of the European Union also asked whether the Working Capital Account may be a source to offset the loss of investment that was being discussed during the Session, and that the Secretariat should prepare a budget for the investigation. The delegate of the United States of America informed that the Working Capital Account is separate from the Draft Administrative Budget that is being discussed under the current agenda item.

24. The delegate of the United States of America requested that the Organizational Chart of the Staff be made available to the Committee so that further deliberation could be made on the three positions proposed to be moved under the Administrative Account.

25. The Secretariat informed the Committee that the Organizational Chart, the TORs and the cost implications had been made available. The costs associated with the revision of the staff rules such as A11, A12, C1, E1 (GCF Consultancy) had been removed from the revised budget document. Only the costs related to the extension of the Health Insurance scheme for locally recruited staff had been retained. Consequently the reduction in the budget for 2016 was \$53,700 and for 2017 the reduction was \$3,700. The cost of shifting positions to the Administrative budget for the Project Manager (P-4) was \$224,644; for the Programme Assistant \$137,165 and for the Fellowship Coordinator \$71,322.

26. The delegate of EU commented that the number of posts remained the same as provided at page 22 of the revised budget and wanted to know if there was residual work of the previous fellows that needed to be completed this year. The delegate of Benin commended the Secretariat for its high quality of work and called for seeking arguments to retain the posts in the interest of financial and social responsibility, security and continuity of tenure. The delegate of Benin added that there would be costs of training that would need to be taken into account. The delegate of Switzerland commented that the matter was delicate as it affects

the future of individuals and there was the need for more information and creative suggestions that justified the work in core activities and projects.

27. The Secretariat clarified that at the Twenty-ninth session of the Committee, the Panel on Sub-Account B of the Bali Partnership Fund (BPF) allocated \$100,000 to the Fellowship Programme. Since there were funds available under the BPF-B account this year, the BPF Panel could consider allocating more funds to the Fellowship Programme. Regarding the other position of Programme Assistant, the Secretariat informed that the prevailing exchange rate had reduced the available funds under the CITES programme, and there was the need, at least on temporary basis, to shift fifty percent of the salary of the Programme Assistant to the Administrative Account. With regard to the position of the Project Manager (P-4), the Secretariat explained the functions of the position indicating that the Project Manager was responsible for all Projects and Activities in the African region. The EU had earlier, at the 48<sup>th</sup> ITTC, proposed that all Project Managers should come under the Administrative budget.

28. The delegate of EU inquired if the EU was consulted about taking away the post funded by the CITES programme in which case the EU may have to withdraw the funding. The delegate of Germany inquired if the only reason to shift the post to the Administrative budget was the shortfall of funds and the inadequacy of money for the Fellowship programme and Projects. The Officer in-Charge, ITTO informed that the EU was aware of the shortfall in funds due to the adverse exchange rate and the impact it would have on the post of the Programme Assistant. The EU delegate informed that she would check with the EU and revert on the matter of funding the post under the CITES programme. The delegate later confirmed that this was acceptable.

29. The delegate from Cameroon stated that the Producers may support the proposal to take on the extra cost involved by shifting posts to the Administrative budget for a period of one year. The Secretariat clarified to the delegate of USA that there is flexibility to change the posts back, if required. Based on future funding the Swiss delegate asked if the Secretariat can proactively revisit the matter of funding these posts after two years during the next financial biennium.

30. The delegate of EU wanted a document that clarified the posts under the regular budget; project staff and Programme Support staff in line with the United Nations rules. The Officer in-Charge suggested that the status quo could be maintained for the posts under Programme Support Costs and new funding may have to be found for the ongoing fellowships. The Committee was informed that the meeting of the BPF-B would be convened that afternoon i.e., 20<sup>th</sup> November. The available balance under the Programme Support was \$1.2 million.

31. The delegate of the Papua New Guinea sought clarification from the Secretariat to provide advice on financial regulations on donor moneys when program or projects lifespan have reached their limits. The Secretariat clarified that any savings under a project has to be returned to the donors. The delegate of Brazil wanted to know if there was room to revisit the funding of the posts next year. The Officer in-Charge informed that the Secretariat will review the staffing levels/workloads and based on the available funding the situation could be reviewed.

32. The delegate of Germany wanted to retain the \$50,000 for the accreditation for GCF for the next year as the opportunity for funding should not be missed in the light of dwindling resources of the Organization. While taking into account the results of the investigation on investment. There was no objection to the proposal.

33. Since there were no other comments, the budget for the financial biennium 2016-2017, as set out in Document CFA(XXX)/2 Rev.3, was approved by the Committee. It was noted that, given the uncertainties, there might be a need to revisit the budget for 2017.

#### **Item 6: Review of Contributions to the Administrative Budget**

34. The Secretariat introduced document CFA (XXX)/3 dated 16 November 2015. This document detailed the status of Members' contributions to the Administrative Budgets for the financial years from 1986 to 16 November 2015, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, in 2015, \$2,781,906.18 had been received from Producer Members out of the total net assessment of \$3,776,361.60; and \$4,070,781.00 had been received from Consumer Members out of the net assessed amount of \$4,111,900.00. The Secretariat further informed that the

assessed contributions of Thailand and Croatia for 2015 were US\$35,858.98 and US\$27,938.00 respectively and that both members have paid their assessed contributions which have been credited to the Working Capital Account.

35. The Committee noted that the arrearages in contributions to previous years' budgets from Producer Members amount to \$3,412,410.91 and arrearages from Consumer Members amount to \$126,065.00. Furthermore, the arrearages in contributions from former members of the Organization amount to US\$1,823,157.28 bringing the total outstanding arrearages to US\$6,397,207.61.

36. The delegate of Benin announced that they have paid their assessed contribution very recently. The Secretariat noted their announcement and confirmed that the statement will reflect any new contributions received, once the funds are deposited in the Organization's bank account.

37. The delegate of Switzerland questioned the Secretariat why the arrears of former Members are still kept in the statement. The Secretariat responded that under the current rules there are no provisions where long-time arrearages are automatically written off. Paragraphs (1) and (2) of Article 33 of the International Tropical Timber Agreement, 1994, "Relief from Obligations" state that a write-off of arrears to the Assessed Contribution should be made through an individual request from the concerning member, and requires a Council Decision to be effected.

38. The delegate of the European Union asked whether under the IPSAS, which will soon be implemented to the accounting of the Organization, would such long-time arrears be automatically written off after a certain timeline. The Secretariat confirmed that, while IPSAS indeed makes a provision for write-off for long-time arrears (over 4-5 years), under the rules of the ITTO, a Council Decision will be required to formally write off the arrears.

39. The Committee took note of the report.

#### **Item 7: Current Status of the Administrative Account**

40. The Secretariat introduced document CFA (XXX)/4, dated 16 November 2015, on the current status of the Administrative Account for the financial year 2015 together with the estimated expenditures for the current year. The Secretariat informed the Committee that the estimated total expenditures for the financial year 2015 would amount to \$6,742,847.60 (i.e. \$946,657.40 less than the total amount approved in the budget for 2015 of \$7,689,505.00) and that the savings had been achieved through stricter control of expenditures and other prudent financial management measures instituted by the Secretariat.

41. The Secretariat further informed the Committee that the total contributions received from both Producer and Consumer members amount \$6,852,687.18 and together with contributions expected to be paid by members before the end of 2015 in the amount of \$289,592.50, it was anticipated that a surplus in the amount of \$397,927.08 would accrue in 2015.

42. The Secretariat drew the attention of the Committee that the current arrears in contribution from Producer members for this financial year amount to USD 994,455.42 and for Consumer members amount to USD 41,119.00. Arrears in contribution do not take into account estimated contributions expected to be paid before 31 December 2015 (i.e. USD 289,592.20). Total arrears from Producer members for the period 1986 - 2014 amount to USD 3,360,839.88 and Consumer members amount to USD 126,065.00 and former members USD1,792,113.72. The interest charges on these arrears in contribution amount to \$82,614.59. Total outstanding contributions to the Administrative Account, including interest charges amount to \$6,397,207.61. If we deduct the contributions expected before 31 December 2015 in the amount of \$2,89,592.50, the total arrears, including interest charges, amount to \$6,107,615.11.

43. The Secretariat informed the Committee that Section C of page 1 of the document shows the Special Reserve Fund of \$1,500,000, that is to be utilized only upon the approval of Council in the event of liquidation of the Organization.

44. The Secretariat further informed the Committee that the resources of the Working Capital Account (WCA) was estimated to increase from the year opening balance of US\$6,137,568.00 at the beginning of 2015 to \$6,726,066.35 by the end of the year 2015.

45. The Secretariat also informed that section E of page 1 of the document that shows the Interest Income balance of US\$372,130.02 to be utilized by the Executive Director for hiring consultants in accordance with Council Decision 2(XXXIV).

46. The details of expenditure for each budget item and where savings were made, were also contained in the document.

47. The Committee took note of the report.

#### **Item 8: Resources of the Special Account and the Bali Partnership Fund**

48. The Secretariat presented document CFA (XXX)/5, on "Resources of the Special Account and the Bali Partnership Fund, which provides information on expenditures and contributions to the Special Account and the Bali Partnership Fund (BPF).

49. The Committee noted that out of a total of 213 Pre-projects and 321 Activities funded from 1987-2015, 204 Pre-projects and 213 Activities were completed and 9 pre-projects and 1108 activities were operational as of 31 August 2015. Out of the ITTO budget of \$33.21 million, an amount of \$28.62 million were disbursed leaving an outstanding obligation of \$4.59 million. Of the 560 projects funded from 1987 to 2015 disbursements of \$34.16 million were made out of the ITTO budget of \$47.18 million and 73 projects with an outstanding obligation of \$13.02 million were operational. The remaining 480 projects had been completed.

50. The Committee further noted that as against the projected funding of \$16.47 million, pledges in the amount of \$2.5 million were made for the Pre-projects, and Activities approved under the BWP 2015 – 2016 and 2014 – 2015 leaving an outstanding amount of \$13.97 million.

51. The Secretariat informed that for the five ITTO Thematic Programmes, with an indicative funding target of \$58 million, pledges of \$21.92 million (37.80%) had been made by donors out of which an amount of \$21.83 million had been received with an outstanding balance of \$0.90 million yet to be received.

52. The Committee noted that the total funds received in the Sub-Account A of the Bali Partnership Fund (BPF) for the period 1999 to 31 August 2015 was \$25.10 million. The amount of \$25.10 million had been committed to 5 Activities, 8 Pre-projects and 73 Projects leaving a nil balance. Under Sub-Account B of the BPF the total funds received were \$20.03 million and the allocations made were \$19.72 million leaving a fund balance of \$308,256.

53. The Committee took note of the report.

#### **Item 9: Auditor's Report for the Financial Year 2014**

54. The Secretariat introduced document CFA (XXX)/6, on the "Report of the Independent Public Auditors" for the Financial Year 2014 on the four Accounts of the Organization, namely: (a) the Administrative Account (b) the Special Account (c) the Bali Partnership Fund Account; and (d) the Executing Agencies Account.

55. The Committee agreed with recommendations contained in the Report of the IAG [Document ITTC(LI)/2] that the matter relating to the loss of investment of \$6 million and other investments be raised in the CFA with a view to drafting a Council Decision for adoption at this Session, establishing an investigation with appropriate expertise to ascertain the facts and setting out a plan of action and timeline for dealing with this issue expeditiously. It was noted that the IAG further suggested that the Decision should include terms of reference for the investigation, measures for reporting the results of the investigation to the Council, a detailed plan of action/timeline, and proposed steps for strengthening ITTO's internal control procedures. Drafting of this Decision was facilitated by an open-ended Working Group co-chaired by the Chairperson and Vice-Chairperson of the CFA.

56. The open-ended Working Group on Investments was established by the Committee on Tuesday, 17 November 2015. The Working Group deliberated on the suggestions made by the IAG and drafted a Decision on Investments and Financial Management, and Terms of Reference for an investigation to be approved by Council. Taking into consideration the deliberations made by the Working Group, the Committee did not find the document fit to be sent to the Council and hence did not approve the Auditor's Report and the Financial Statements.

57. The delegate of the European Union (EU) stated that the statement of results on page 7 of the Auditor's Report, as contained in the penultimate paragraph does not provide any assurance of a true and fair view of the financial situation of the organization. Further, the audit opinion does not expressly mention if the financial statements expressed a "true and fair" view as done in other international organizations. The Secretariat drew attention to the statement made by the Auditors in the Audit report that they conducted the audit in accordance with the International Standards of Auditing. Conventionally the audit reports in ITTO did not include the true and fair view statement as it would involve a different approach. The delegate of EU wanted to know if the changes could be made to have the True and fair view in the audit report and if so, the costs involved. The Secretariat informed that the costs involved could be marginally high and the statement of True and fair view could be adopted by making changes to the approach to audit. To the query if the huge cost of audit of \$111,537 provided in the budget could have been utilized to incorporate additional procedures required to conduct the true and fair view approach, the Secretariat explained that the cost of audit included provision for the exercise to migrate to the International Public Sector Accounting Standards (IPSAS).

58. The delegate of Brazil supported the EU and stated that they too were not in a position to adopt the Auditor's report and reiterated their request to make available the previous year's Audit report to the delegation. She further added that the total interest income in 2013 was indicated as US\$67,763 and was not commensurate with the high interest rates of the investments made. The Secretariat clarified that the income reflected the interest received at the end of its financial year end.

59. The Swiss delegate followed by the delegate of United States of America (USA) sought to know how the Terms of Reference (TOR) were established for the Auditors for this audit. The Secretariat explained that the TOR is contained in the ITTA, 2006 and the Financial Rules of the Organization. In view of the specific mandate of the Working Group, the delegate of Cameroon wanted to know if the Auditors, and not the Secretariat, should present the Audit Report.

60. The delegate of Indonesia supported EU's comments on not accepting the Audit report pending the report on the impairment of investments. The delegate of Indonesia sought clarification on "Satisfactory Opinion" and "Unqualified Opinion". The Secretariat clarified that "unqualified opinion" is the same as "satisfactory opinion" and a qualified opinion is issued if the Auditors do not agree with the approach taken by Management. The delegate of EU drew attention to the 2012 audit report wherein the auditor's had expressed an opinion about the project accounts. The Secretariat clarified that the opinion expressed by the Auditors was a "scope limitation" and it was not expressing a qualified opinion.

61. The delegate of Switzerland wanted to know if there are different standards used in auditing and if there are any specific standards. She added if systemic problems can be addressed by updating the TOR for the Auditors. The Secretariat replied that there are different standards adopted depending on the requirements established in a country/industry, nature of industry. In the case of international Organizations, the International Financial Reporting Standards are used including in ITTO. The International Public Sector Auditing Standards (IPSAS) is gaining wide acceptance among international organizations and ITTO intends to migrate to IPSAS.

62. The delegate of USA wanted to know if there was a need to change the practices and added that if ITTO hired the auditing firm. They also stated that they were not sure if the "impairments" reflected constraints/if there was a permanent loss. The Secretariat clarified that quotes were invited from leading audit firms with international experience as it would save money to the organization by restricting the invitees to the firms based in Japan. The criteria adopted along with the quotes and profile submitted by the audit firms were prepared and submitted to the CFA for the selection of the audit firm. The CFA thereafter recommended the appointment of the audit firm to the Council. The investment was considered impaired in March 2013 as at that time the Trustees were appointed who had advised all investors about their efforts to revive the Funds and the likely potential litigation involved. In view of this development a separate line item of the \$6 million investment was made in the financial statement and disclosed in the note. The Secretariat

agreed with the delegate of USA that there should have been a disclosure terming it as a loss in the 2014 report.

63. The delegate of EU wanted to know if there was conflict of interest by appointing BDO to conduct the audit of the 7 pillars mandated by the European Commission as they are the same auditors reviewing the financial statement of ITTO. The Secretariat confirmed that EU was informed about the status of BDO and after obtaining approval they were engaged to conduct the 7 pillar audit.

64. The delegate of EU stated that the Audit report did not enable them to understand the opinion given by the auditors. They recommended closing the agenda item by not adopting the report because the EU would need a true and fair view picture. They do not consider the statements are adequate and transparent enough in 2014. For the future they would welcome ITTO's move to adopt IPSAS.

65. Due to time constraints, the Committee was not able to consider the report of the open-ended Working Group on Investments. The draft Decision prepared by the Working Group was finalized by the Chairperson's open-ended drafting group for approval by the Council.

66. The Committee decided not to adopt the Auditor's Report until the work recommended by the Working Group is completed.

#### **Item 10: ITTO Staff Regulations and Rules**

67. The Chairperson introduced this Agenda item. The Committee decided to defer discussions to its next Session, but agreed to modify the Health Insurance Scheme for locally recruited employees.

#### **Item 11: Progress Report on the Implementation of the Biennial Work Programme of the Committee for the Years 2013 – 2014**

##### **Strategic Fundraising Support to the International Tropical Timber Organization**

68. The Secretariat presented the report of the Fundraising Consultant, Lynea Advisory, engaged in June 2014 to provide strategic fundraising support.

69. The delegate of Benin complimented ITTO for presenting the report on fund mobilization. The Secretariat clarified to the delegate of Benin that the agencies/organizations listed in paragraph 71 were contacted. However, funds are not available to continue with the efforts to mobilize the resources. The delegate of Benin stated that ITTO should build long-term relationship with the agencies contacted

70. The Committee took note of the report.

#### **Item 12: Anti-money Laundering and Counter Terrorism Financing Policy(AML/CFT)**

71. The Secretariat presented the draft AML/CFT policy of ITTO developed by a Consultant in support of ITTO's application for accreditation to the Green Climate Fund (GCF).

72. The delegates of Japan and USA informed that elsewhere a decision was taken to put on hold the accreditation to the GCF pending the outcome of the investigation on investments. However, it was noted that the delegate of Germany had proposed to retain the provision of \$50,000 under the budget line E1 "Consultancy" to support the accreditation to the GCF for the next year after taking into account the results of the investigation on investments and that this had been done in the proposed budget.

#### **Item 13: Election of Chairperson and Vice-Chairperson for 2016**

73. The Vice-Chairperson of the Committee for 2015, Mr. Rob Busink of the Netherlands, was elected Chairperson of the Committee for 2016 and Mr. Mad Zaidi Mohd Karli of Malaysia was elected Vice-Chairperson of the Committee for 2016.

#### **Item 14: Dates and Venue of the Thirty-first and Thirty-Second Sessions**

74. The Committee agreed that its Sessions may be held on the same dates and at the same venues as the Fifty-second and Fifty-third Sessions of the Council. It was noted that a Special Session of the Committee might be needed under the Decision on Investment and Fund Management which was to be adopted by the Council at this Session.

#### **Item 15: Other Business:**

75. The Secretariat informed the Committee of the request made by the Central African Republic to consider write-off of its arrears in line with Article 30 of the IITA, 2006, on "Relief from Obligations". The Committee deliberated on the issue and decided that the letter should be circulated to all Member Countries and the request should be revisited. The Committee concluded to positively consider the request submitted by the Central African Republic to write off its arrears of Assessed Contribution to ITTO for the period of 2005 – 2011 and that the matter be listed as priority item in the agenda of the Committee at its next Session

76. The Secretariat presented a conference paper on the adoption of IPSAS by ITTO .The Secretariat informed that ITTO is currently following a modified form of cash and accrual basis accounting that is based to a large extent on the UN System of Accounting Standards (UNSAS). However, in recent years the UN had migrated from the modified form of cash and accrual basis of accounting to the International Public Sector Accounting Standards (IPSAS) that has been accepted as best practice for accounting and reporting for public sector organizations worldwide.

77. The need to adopt IPSAS by ITTO was highlighted by the European Commission (EC) Auditors in 2012 and again in 2014 during the course of assessing ITTO's capability to fulfill the EC's requirement to undertake budget implementation tasks for EC funded projects.

78. As a first step towards assessing the feasibility of adopting IPSAS in ITTO, a gap analysis was conducted by ITTO with the assistance of BDO from June to end August 2015. The gaps were analyzed from the perspective of the IPSAS standards followed by the UN and the accounting treatment prevalent in ITTO. BDO thereafter submitted a Management letter dated 22 October 2015 that assisted in identifying 12 major gaps between ITTO's current accounting treatment and the IPSAS accounting system followed by the UN. Further, the Management letter indicates the next steps to be taken to implement IPSAS based accounting standard for the financial result of 2015.

79. Due to the limited scope and scale of transactions of ITTO's operations, the Secretariat considers it feasible to migrate to the IPSAS standards based on the principles adopted by the UN. The IPSAS principles proposed to be adopted are in compliance with the ITTO's Financial Regulations and Rules.

80. The Secretariat acknowledged the support provided by the UN in ITTO's endeavor to adopt IPSAS. The Officer in-Charge, ITTO, stated that adoption of IPSAS would help in having a rigorous policy for ITTO.

81. The delegate of Japan stated that they needed more time to examine thoroughly the impact of the introduction of IPSAS. The delegate of Papua New Guinea noted Japan's comments and agreed that there was a need to align ITTO's accounting practices with those of other UN Organizations.

82. The Chair agreed that further discussion on IPSAS take place at the next Session of the Committee.

83. Project PD73/89.: The Officer in-Charge informed the Committee that at the Yokohama session of the ITTC last year the CEM-CFI had recommended raising the issue of mobilizing additional sources of funding to cover costs for project formulation at the 51<sup>st</sup> ITTC session. One of the options considered was by levying an additional percentage from the Programme Support Costs. At the request of Benin, the Officer in-Charge explained the background that in the early days ITTO helped nations to develop projects. Limited assistance was provided and the demand exceeded the voluntary contributions made. However, the demand continues. It was noted that the USA had pledged funds to cover the costs for Project Formulation.

84. The delegate of Benin commented that this matter is an important concern for them as projects implemented affect the local communities. The sunset clause, and projects falling under Category IV called

for the need to have capacity building. The delegate of Benin wanted the subject to be broached at the CFA session on 21 Nov 2015.

85. The Chair commented that in view of the limited time available for the last CFA session on 21 November 2015, it may not be possible to discuss the matter as there were many pending discussions to be taken up. Therefore, the matter will be deferred to the next Council session.

**Item 16: Recommendations to the International Tropical Timber Council**

The Committee decided to make the following recommendations to the Council:

- (1) To endorse the Biennial Administrative Budget for the Financial Years 2016 and 2017 as contained in document CFA(XXX)/2 Rev.3, in the amount of US\$7,432,297 and \$7,108,822 respectively; while noting that given the current uncertainties there might be a need to revisit the biennial budget for 2017;
- (2) To suspend the adoption of the Report of the Independent Public Accountants on the Accounts of the Organization for the Financial Year 2014 as contained in document CFA(XXX)/6 until the work recommended by the Chairperson's Working Group on Investment is completed; and
- (3) To positively consider the request submitted by the Central African Republic to write off its arrears of Assessed Contribution to ITTO for the period of 2005 – 2011 and that the matter be listed as priority item in the agenda of the Committee at its next Session.

**Item 17: Report of the Session**

86. The Committee adopted this report as amended.

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