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COMMITTEE ON FINANCE AND ADMINISTRATION

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REPORT TO THE INTERNATIONAL TROPICAL TIMBER COUNCIL

THIRTY-FIRST 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. Rob Busink of the Netherlands, welcomed all delegates to the Thirty-first 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(XXXI)/1. He opened the floor for comments. As no issues were raised, the Committee adopted the Provisional Agenda as contained in document CFA(XXXI)/1.

3. The Chairperson proposed that the Committee take up the Agenda items one by one as listed in the Provisional Agenda. The Committee accepted the approach.

4. Before opening the next Agenda item, the Chairperson requested the Secretariat to give an overview of the structure of ITTO's financial accounts so that the members of the Committee could be familiarized with the terms when Agenda item 11 on the Impairment of ITTO Funds was discussed. The Secretariat gave a concise presentation on the structure of ITTO's financial accounts, which was later distributed to all members of the Committee. The Secretariat highlighted that it was proposed in the Draft Decision on "Guidelines for Addressing ITTO Financial Shortfall" that the Council authorize the use of certain funds/reserves to be applied to assist in meeting the shortfall of funds, such as the Working Capital Account and Reserve[1] provided by interest income earned in the Administrative Account excluding interest income under Decision 2(XXXIV). The Secretariat informed the Committee that the Executing Agencies Account, which was created for accounting purposes to measure the amount of committed funds, would be abolished once the proposed financial rules were adopted by Council.

5. The Committee took note of the overview.

Item 3: Admission of Observers

6. The Chairperson advised the Committee that the Council had admitted all applicants, as shown in document ITTC(LII)/Info.3 which listed states, inter-governmental and non-governmental organizations applying for Observer status. The Chairperson noted the importance of transparency in the Committee. Nevertheless, he informed the Committee that it was the normal practice of the CFA that, should any member of the Committee wish to keep the meetings private, the Observers would be asked to leave the meeting.

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

7. The Chairperson advised the Committee that the Report of the Fifty-First Meeting of the Expert Panel for Technical Appraisal of Project Proposals (Documents ITTC/EP-51) was deliberated on and concluded at the Joint Session of the Committees convened on 9 November 2016. The Joint Session had not requested the CFA for any follow-up.

Item 5: Approved Biennial Administrative Budget for the Years 2016 and 2017

8. The Secretariat referred to the approved biennial administrative budget for the financial years 2016–2017, as contained in Document CFA (XXX)/2 Rev.3 dated 21 November 2015, which was approved by the Council at its Fifty-first Session convened in Kuala Lumpur, Malaysia, in November 2015. The document was redistributed at this CFA meeting due to recommendations at the previous Session stating that "given the current uncertainties there might be a need to revisit the biennial budget for 2017".

1 Note that in the new ITTO Financial Rules and Regulations, if adopted, the Working Capital Account would be renamed the Working Capital Reserve, and the latter term is used hereafter in this report.

The delegate of the European Union (EU) suggested that, in future, the approved administrative budget should be made publicly available by formulating a budget decision, instead of the current practice of the Council to approve the budget by adopting the recommendation of the CFA. The Secretariat informed the Committee that changing the current procedures would require a Council Decision. Nevertheless, the Committee noted that the proposed Council Decisions to be taken at this Session with budgetary implications would most likely be drawn from the Working Capital Reserve, with no implications for the administrative budget.

9. Since there were no other comments, the Committee concluded that no changes would be made to the budget for the financial biennium 2016-2017, as set out in Document CFA(XXX)/2 Rev.3.

Item 6: Review of Contributions to the Administrative Budget

10. The Secretariat introduced document CFA (XXXI)/3 Rev.2 dated 8 November 2016. This document detailed the status of Members' contributions to the Administrative Budgets for the financial years from 1986 to 7 November 2016, including assessments, receipts, interest charges, and arrearages in contributions. The Secretariat informed the Committee that, in 2016, $2,659,381.00 had been received from Producer Members out of the total net assessment of $3,468,661.00; and $3,884,887.32 had been received from Consumer Members out of the net assessed amount of $3,963,633.00. The Secretariat further informed that Madagascar had joined the Organization on 27 October 2016. The assessed contribution of Madagascar was US$13,135.42, which had been assessed by the Council on the basis of the number of votes to be held by Madagascar for the period remaining in the current financial year.

11. The Committee noted that the arrearages in contributions to previous years' budgets from Producer Members amounted to $4,741,325.75 and arrearages from Consumer Members amounted to $202,453.68. Furthermore, the arrearages in contributions from former members of the Organization amounted to US$1,823,157.28, bringing the total outstanding arrearages to US$6,766,936.71.

12. The Committee took note of the report.

Item 7: Current Status of the Administrative Account

13. The Secretariat introduced document CFA (XXXI)/4 Rev.1, dated 7 November 2016, on the current status of the Administrative Account for the financial year 2016, together with the estimated expenditures for the current year. The Secretariat informed the Committee that the estimated total expenditures for the financial year 2016 would amount to $6,067,801 (i.e. $1,364,496 less than the total amount approved in the budget for 2016 of $7,432,297.

14. The Secretariat further informed the Committee that the total contributions received from both Producer and Consumer members amount $6,544,268.32 and together with contributions expected to be paid by a members before the end of 2016 in the amount of $45,853.00, it was anticipated that a surplus in the amount of $522,317.06 would accrue in 2016.

15. The Secretariat drew the attention of the Committee that the current arrears in contribution from Producer members for this financial year amount to $809,280.00 and for Consumer members amount to $78,745.68. Arrears in contribution do not take into account estimated contributions expected to be paid before 31 December 2016 (i.e. $45,853.00). Total arrears from Producer members for the period 1986 -2015 amount to $3,867,339.30 and Consumer members amount to $78,745.68 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 $6,753,801.29. If we deduct the contributions expected before 31 December 2016 in the amount of $45,836.00, the total arrears, including interest charges, amount to $6,707,948.29.

16. The Secretariat informed the Committee that Section C of page 1 of the document showed the Special Reserve Fund at $1,500,000, which was to be used only on the approval of Council in the event of liquidation of the Organization.

17. The Secretariat further informed the Committee that the resources of the WCR were estimated to increase from the opening balance of US$6,267,022.00 at the beginning of 2016 to $6,639,379.38 by the end of the year 2016.

18. The Secretariat informed that section E of page 1 of the document showed the Interest Income balance of US$181,858.40 to be used by the Executive Director for hiring consultants in accordance with Council Decision 2(XXXIV).

19. The document also contained details of expenditure for each budget item and where savings were made.

20. The delegate of Ghana inquired of the Secretariat about the Organization’s policy regarding arrears in assessed contributions, including cumulative arrears since 1986. The Secretariat explained that reminders were sent on a regular basis to Members with arrears to follow up with their payment. There was also a provision in Decision 7(XXXIII) that the status of arrearages in contribution would affect the Members’ eligibility to submit project proposals.

21. Noting the operating surplus of $486,607 that would be added to the WCR, the delegate of the United States of America (USA) suggested that the WCR should not be bloated. It is usual practice in other international organizations that the balance of the WCR is managed so that it does not exceed the amount equivalent to two months’ operating expenses of the organization. The delegate of USA proposed that, when the WCR exceeds this amount, the amount in excess should either be returned to Members, or be utilized to offset a one-time extraordinary expense, as approved by the Members. The Committee noted the proposal of the USA and decided to discuss the matter in Item 11(a) when the financial rules are reviewed.

22. The delegate of the EU supported the statement made by the USA in that the level of the WCR should be controlled more strictly, particularly in view of the fact that the estimated balance of $6.6 million at the end of 2016 was almost equivalent to the annual Administrative Budget, which was too high. The delegate found it important that Members were regularly informed of the total level of arrears.

23. The delegate of the European Union also noted that the increase of the WCR in the current year is mainly due to less expenditure on salaries because two senior staff members were dismissed and their posts had not been filled during the rest of the year. If there was no financial crisis, and if staff were not dismissed, the administrative account for the current year would have resulted in a deficit because of assessed contributions not paid by Members before the year-end. The delegate of the European Union flagged this to the Committee and encouraged Members to pay their assessed contributions on time.

24. The Committee took note of the report.

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

25. The Secretariat presented document CFA (XXXI)/5 on “Resources of the Special Account and the Bali Partnership Fund, which captures the current balance of funds and commitments under the Special Account and the Bali Partnership Fund (BPF).

26. Under the current extraordinary situation, this statement was prepared to serve as a reference to Document ITTC(LII)/11(a), the Report of the Oversight Committee. The figures presented in this statement were rounded for ease of reference. The current balance of funds under the Special Account and the Bali Partnership Fund amounted to a total of US$8.86 million, while the commitments owing from the Special Account and the Bali Partnership Fund amounted to US$18 million. Details of all commitments of ongoing Projects, Pre-projects and Activities are included in Annex 4 of Document ITTC(LII)/11(a), the Report of the Oversight Committee.

27. This document was prepared as of 30 September 2016. The Secretariat informed the Committee that, after this date, a voluntary contribution of US$750,000 had been received from the USA to the Special Account. Therefore, the current balance of Donor’s Funds had increased to US$1.72 million.

28. The delegate of the EU asked the Secretariat if more details on the figures presented in this document would be given when the Committee visited Agenda Item 11 on the Impairment of ITTO Funds. The Secretariat confirmed that further explanations would be provided when Item 11 was discussed.

29. The Committee took note of the report.

Item 9: Auditor's Report for the Financial Years 2014 and 2015

30. The Secretariat introduced document CFA (XXX)/6 Rev.1 on the "Report of the Independent Public Accountants" 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.

31. The Independent Public Accountants' Report for the Financial Year 2014 had already been once presented at the Thirtieth Session of the CFA in Kuala Lumpur in November 2015. However, the Council had decided to suspend the adoption of the report, as contained in document CFA(XXX)/6, until the work recommended by the Chairperson's Working Group on Investment had been completed. As the work as contained in Decision 4(LI) on the Impairment of Investments was now completed, it was being presented again for the Committee's deliberation and to recommend to the Council for approval.

32. Although the Auditor's report itself remained the same as contained in the document that was reviewed in the previous session of the Committee, the current management and the auditor, BDO Toyo, had agreed to slightly modify the presentation of the balance sheet of the Executing Agencies Account. On page 99 of document CFA (XXX)/6 Rev.1, Members' funds were shown with a breakdown of two elements: one as funds committed for specified projects of the Special Account and the Bali Partnership Fund Account, and the other was Impairment of Investments in securities. In the original version of the financial statement of 2014, these two elements had been presented as a net figure. It had been decided that this presentation should be revised to be consistent with the financial statement of 2013, which provided information in a more transparent and relevant form. No other revisions were made to this document.

33. The Chairperson invited officers from BDO Toyo to the podium to respond to inquiries. The delegate of the EU suggested that the auditor's report did not point out the consequences of impairments to the ITTO accounts, and she posed three questions to the BDO officers: 1) Did they think that diligent civil servants more specialized in forestry than accounting could be expected to learn from the audit report of the impairment of US$6 million? 2) The report ends with a statement indicating that the report was intended solely for ITTO and should not be distributed to or used by anyone other than members of ITTO. Given that ITTO is a public, non-profit organization, what was the purpose of that statement? 3) On page 99 of the report, the impairment of investments changed from US$6 million to US$5.967 million. Why did the figure change?

34. An officer from BDO responded that generally no descriptions are provided in financial audits. The auditing industry uses templates, and additional information was not supposed to be provided beyond the financial statement; the role of the auditor was to ensure that financial statements contained everything. There were some exceptions, and descriptions might be provided if there was a need to emphasize certain elements. In this case, the impairment had been clearly stated in the financial statement and the auditor's understanding was that the audit report did not need to refer to that loss. On the second question, the officer stated that, according to the financial rules applied by ITTO, financial statements were not public. The existing text had also been used in previous audit reports, and BDO was comfortable with the restrictions indicated. The financial rules were formulated specifically for ITTO, and under those rules, the restrictions on distribution were appropriate.

35. On the third question, the Secretariat responded that the reduction in the total amount was due to a reimbursement received from the investment advisor. This was indicated in the report of the investigation.

36. The delegate of the EU asked the representatives of BDO that, if the financial rules were to be changed so that the audit report was to be a public document, would they be equally comfortable with that?

37. The representative of BDO replied that, although the statement at the end of the report was not part of the rules of ITTO, it needed to be included because ITTO's financial rules were very specific to ITTO, and these might not be known by those outside ITTO if the document was publicly available.

38. The delegate of the EU proposed a change in the wording to "This audit has been done in accordance with the financial rules of ITTO, which are specific and therefore might not be relevant in other cases". The delegate of Japan supported this suggested change. The delegate of the EU further said to the BDO officer that, as she understood it, BDO found it acceptable for an impairment to be indicated on page 99 of a document that started as an audit statement. She asked if, in his opinion, it was correct that any reader of the document should need to get to page 99 in order to realize that the Organization was broke. She sought his professional comment on this.

39. The representative of BDO said that the role of the auditor was to ensure that financial statements compiled by management had everything needed, and it was the responsibility of management to explain the contents. BDO did not normally provide specific information in its reports because this would imply that information in the financial statements was insufficient, and BDO's role was to ensure that this was not the case. In his industry, he said, there is a concept of "going concern", and this was not presented in figures or numbers but as footnotes. In this instance, there was a note in the financial statement.

40. The delegate of the USA requested that the Secretariat circulate the terms of reference of previous auditors to provide a comparison against changes that would be considered under item 11 of the agenda. She further suggested that this should be done whenever the Committee was selecting an auditor so that members would know what funds were to be used for.

41. The representative of BDO added that standard reporting rules for the international public sector were being increasingly adopted, and it would be an opportune time to update the ITTO rules to reflect current requirements in financial reporting to the international public-sector standard. If this was done, the restriction on circulation could be removed; under the current financial rules, however, the statement was appropriate.

42. The Committee took note of the Report of the Independent Public Accountants for the Financial Year 2014, as contained in CFA(XXX)/6 Rev.1. The delegate of the EU requested that, in the Committee's eventual adoption of the audit report, it should be noted that, in the opinion of the EU, note 2 referred to in the original auditor's report and the financial statements was ineffective or incomplete.

43. The Secretariat further introduced document CFA (XXXI)/6 on the "Report of the Independent Public Accountants" for the Financial Year 2015. The Committee's attention was drawn to pages 9, 10 and 11 of the document, which provided the consolidated financial statement of all four Accounts of the Organization, showing a comprehensive picture of the overall financial status of the Organization.

44. In the Financial Year 2015, the current management had decided to create a provision for Impairment of Investment in Securities, in the amount of US$12,014,000. The reason for this was detailed in section 2 of the Notes to the Financial Statements, on page 19 of the document.

45. Other highlights of the accounts of Financial Year 2015 include reclassification in the section of Members' fund and some changes in accounting policies that are described in pages 23 through page 26 of the document.

46. The Auditors had provided their satisfactory opinion on ITTO's financial statements, noting that the financial statements were prepared with a going concern assumption.

47. The audit was carried out by BDO Toyo, Tokyo, which was appointed by the Council in December 2013 to audit the accounts of the Organization for the Financial Years 2013, 2014 and 2015. BDO had carried out its final audit for the period ending 2015 in the months of March to August 2016.

48. The delegate of the EU sought clarification as to why the amount shown on page 12 of the auditor's report showed the impairment amount at US$12,014,000 and not the full amount of US$12.2 million. The Secretariat responded that the original investment of US$12.2 million had been made in two amounts, US$6 million and US$6.2 million. The former ITTO management had redeemed this investment and consolidated it into one amount, and a fee had been applied to that transaction, reducing the value of the investment from US$12.2 million to US$12.014 million. At the time, the difference had been taken from the interest reserve, which was why the amount had been reduced.

49. The delegate of Peru said that, while the auditor's reports were correct from an accounting point of view, an auditing exercise should go beyond the accounts to determine whether correct procedures had been followed and the investments were duly backed by decisions of the Council. He asked whether the auditor had analyzed the procedure used. The auditor responded that, with regard to the investment, it had been made before the auditor's appointment in 2012. With respect to specific rules on investment, the auditor had not seen a clear procedure. In the course of the audit, the auditor had ensured there was an internal memorandum on the investment to indicate that the investment had not been the decision of a single person but, rather, was an organizational decision. If specific rules and procedures could be added to the internal rules, that would be a great improvement.

50. The Committee took note of the Report of the Independent Public Accountants" for the Financial Year 2015 as contained in CFA(XXXI)/6 and decided to recommend its approval to the Council.

Item 10: Appointment of Auditor

51. The Secretariat introduced document CFA(XXXI)/7 on the Appointment of Auditor for the Financial Years 2016 – 2018.

52. In accordance with Article 23 of the International Tropical Timber Agreement, 2006, as well as Rules 7 and 16 of the Financial Rules and Rules relating to Projects of the ITTO, the Council shall appoint an independent auditor of recognized standing for a term of not more than three consecutive years, from among the auditing personnel who are nationals of the Members of the Organization. The audit firm BDO Toyo & Co. had audited the Accounts of the Organization for three consecutive years (2013, 2014 and 2015), and accordingly, the Council would need to appoint a new Auditor to audit the Accounts of the Organization for the following term of three consecutive years (2016-2018).

53. To meet this requirement, the Secretariat contacted 10 (ten) medium-to-large sized audit firms of recognized standing and invited them to submit estimates of fees for the three consecutive years 2016–2018. Four audit firms had responded to the invitation to submit proposals, whose estimated fees are shown on page 2 of the document. Approximate equivalents in United States dollars are shown for ease of comparison, using the U.N. official exchange rate as of 24 October 2016 of US$1.00 = Yen 103.76:

54. As introduced in Item 9 of the Agenda, the Secretariat had developed several new accounting policies since the last Council Session in November 2015, with a view to providing more reliable and relevant information about the effects of transactions and conditions on its financial position. Furthermore, a new revision of Financial Rules, as well as Audit Standards and relevant Staff Rules and Regulations, were to be discussed at the present session and may be adopted by Council. During this transitional period, consistency and continuity of audit would be vital to the Organization, at least until various decisions on ameliorative measures on the impairment of investment were incorporated within the financial accounts. The Committee may consider the risk of changing the auditor that could result in an inconsistency in accounting treatment, delays in the preparation of audit report, and increases in the audit fees, while the current auditor will be free of such risks.

55. The Committee was reminded that it is proposed in Rule 14 of the new revision of Financial Rules that ITTO ensures that its financial statements and reports are based on International Public Sector Accounting Standards (IPSAS). Although the Organization is yet to implement IPSAS, the initial phase towards its implementation, which are planning and gap analysis, had already been conducted with the assistance of BDO Toyo & Co. in 2015, as commissioned by the Council. If the revised Financial Rules are adopted and the Organization is to implement IPSAS immediately, the Council would need to select the most cost-efficient auditor who could assist the Organization to complete the implementation at the earliest. BDO Toyo & Co. had the

advantage of being familiar with ITTO's current accounts and thus will enable the Organization to complete implementation in the shortest timeframe.

56. Among the audit firms that submitted proposals to audit the accounts of Financial Year 2016, BDO Toyo & Co. was the only auditor whose fee could be accommodated within the approved budget of Year 2017. The Secretariat also reminded the Committee that there was a timing issue and that BDO was the only auditor who could enable the preparation of an IPSAS-based audit report of the 2016 accounts.

57. For the practical reasons given, the Secretariat proposed that the Council consider extending BDO Toyo & Co. for one additional year to audit the Organization's accounts for the financial year 2016 to ensure consistency and continuity in the accounts, as well as the most cost-effective audit. The Committee may note that it is not an unusual practice to appoint the same auditor for more than three consecutive years. As shown in the table attached to the document, the Council had appointed the same auditor, PriceWaterhouse, twice in the past for more than three consecutive years.

58. The delegate of the USA, while recognizing the potential savings by extending BDO's contract for one additional year, stated that the Committee needed to balance its desire to achieve savings with the level of confidence in, and transparency and accountability of, the auditor selected. The delegate inquired the Secretariat whether all auditors who gave quotations were aware that the Council would be expecting a higher level of engagement and a more robust audit under the revised financial rules and audit standards, and whether the quotations given included the fees for such additional level of service. The Secretariat informed the Committee that the quotations were based on the current financial rules. The bidding auditors had been informed that the financial rules were being revised and that the Organization may adopt an IPSAS-based accounting. The bid for IPSAS would be substantially higher than the normal audit fees.

59. The delegate of the EU asked the Secretariat how the Committee should decide on the appointment if the quotations given in the document did not match the actual service that would be required from the auditors, and how the additional costs would be covered. The Secretariat informed the Committee that the quotation given by BDO Toyo & Co. were at the same level as in previous years, and that they would be able to conduct a standard audit in accordance with the new financial rules within the same quote. For costs to migrate to IPSAS and to increase the scope of the 2016 audit in accordance with the ITTO Audit Standards, the release of up to $200,000 from the WCR was requested in the draft Decision on Revision of ITTO Financial Rules and Procedures.

60. The delegate of the EU, followed by New Zealand, raised concerns on whether there was a conflict of interest in having BDO provide assistance to ITTO in migrating to IPSAS while they were also auditing ITTO's financial accounts of the same year. The Secretariat replied that although the auditor provided guidance to the Secretariat to prepare IPSAS-based accounts that the auditor itself was to audit, the accounts would be produced by the Secretariat. Therefore there should not be a conflict of interest.

61. The delegate of the EU stated that the revised financial rules set out very clearly how bids were to be done, but that procedure has not been followed in appointing the auditor for the year 2016 because the Council would be adopting new financial rules and at the same time appointing the auditors in accordance with the old financial rules to do a job on the basis of the new financial rules. The delegate of the EU requested that these consequences be spelled out in the report of the Committee.

62. The delegate of China, supported by the EU and the USA, emphasized that the auditors should be responsible for making suggestions to the Organization on how to improve its management of financial resources, and that if the same auditor was to be appointed for one more year, the auditor should assume more responsibility, as set out in the revised financial rules, and provide a report of higher quality. The delegate of New Zealand joined the view of China and added that it was important to get the best advice from the auditors in the future.

63. The delegate of China asked the Secretariat about the procedures for appointing an auditor. The Secretariat informed the Committee that the Council would make the final decision, in accordance with Article 23 of the International Tropical Timber Agreement, 2006. The delegate of China expressed its concern about appointing the same auditor that had been auditing ITTO's accounts during the period when

the financial crisis occurred, and reiterated that the Council should appoint an auditor that could point out the financial problems of the Organization, as auditors of other international organizations were required to do. The delegate of Japan also expressed concern about the quality of the work by the current auditor, and informed the Committee that he had conveyed his sentiments directly to the auditors as a representative of the Host Government.

64. The delegate of the USA, followed by the EU, stated that the auditor for the year 2016 should be engaged in accordance with the terms of reference set out in the new financial rules. The Committee noted that the language of the Engagement Letter for the auditor's appointment should be revised in this regard. Copies of the Engagement Letter signed for the audit of the year 2015 were made available to the Members of the Committee for reference.

65. The delegate of the EU sought clarification from the Secretariat about how an IPSAS-based audit report could be prepared for the financial year 2016 while the current bookkeeping of ITTO was not compliant to IPSAS. The Secretariat explained that, if the migration to IPSAS was assisted by BDO, the IPSAS-based financial accounts could be prepared by converting the opening balance and closing balance in accordance with IPSAS. However, the other auditors would be unable to do this due to a lack of experience and institutional knowledge on ITTO's accounts, and therefore they would only be able to prepare the IPSAS-based audit report for the year 2017 at the earliest, which would be presented to Members in 2018.

66. The Chairperson noted the reluctance of the Committee to engage BDO Toyo & Co. for another year, but also suggested that the Committee needed to be practical and to consider that the accounting of the Organization was now in a year of transition. He concluded that the exact wording of the conditions of recommending BDO Toyo & Co. to audit ITTO's accounts for one more year should be clearly set out in the report of the CFA, and it should be in accordance with the text of the new financial rules to be adopted.

67. Following the language proposed by the delegate of the USA and EU, the Committee decided to recommend to Council to approve the appointment of BDO Toyo & Co. to audit the Accounts of the Organization for the financial year 2016, as an exceptional extension of appointment, provided that the quality and scope of audit is in compliance with the revised Financial Rules; and there is no increase in the bid already made to the Organization.

Item 11: Impairment of ITTO Funds

(a) Revision of ITTO Financial Rules and Procedures, Audit Standards, and relevant Staff Regulations and Rules.

68. The Chairperson introduced document ITTC(LII)/11(b) on "Revision of the ITTO Financial Rules and Procedures, Audit Standards, and Relevant Staff Regulations and Rules Under Decision 1(LI.1)". The Chairperson noted that this agenda item would be the core for a new ITTO to avoid any risk of the impairment of funds in the future. He conveyed his appreciation to those who had contributed to the preparation of the thick document, particularly the members of the Expert Panel on Revision of the ITTO Staff Regulations and Financial Rules established under Decision 1(LI.1) and the consultants, Dr. David Brooks and Mr. D. Dunstan.

69. The Chairperson invited the Expert of the USA, member of the Expert Panel, to give a brief presentation on the work done on the revision of the ITTO Staff Regulations. Before starting her presentation, Ms. Stephanie McFadden O'Neill noted that the issue of staff remuneration was not discussed in the Panel because it had already been addressed and approved in the CFA at its Thirtieth Session in November 2015.

70. The Expert of the USA indicated that the most important issues addressed in the revision of the ITTO Staff Regulations were:

- higher standards of conduct (Regulations 1.6 and 1.12);
- strengthened provisions on conflicts of interest (Rule 103);
- a prohibition on the use of private email for official business (Rule 105);
- provision for ITTO's contributions to the Provident Fund to be returned to the Organization in cases of summary dismissal (rule 501);
- clear definitions of gross negligence and serious misconduct that could lead to dismissal, as well as clarification of disciplinary procedures and termination rules (Regulations 7.1, 8.1 and Rules 803 to 805);
- new provisions on performance evaluation (Rule 906); and
- incorporation of the whistleblower policy (previously adopted by Council in 2013) and adding stronger protection for whistleblowers (Regulation 8.1(c), Rule 906 and the annexed policy).

71. The Expert of the USA stated that there was a lack of examples of provisions for the misconduct of the heads of organizations; generally, there were provisions to instruct an organization head on the misconduct of staff but not on his or her own misconduct. ITTO would therefore serve as a model for others if the proposed provisions were adopted.

72. The Expert Panel had outlined a broader scope of audit requirements for the independent auditor. The Expert of the USA added that, under the current terms of reference described in the Engagement Letter, the auditor was not required to report on the misconduct of the Executive Director or ITTO Management. She also noted that the expanded scope of audits would cost more than current audit fees, so the bids that would be received in future would be considerably higher.

73. The Chairperson invited the Expert of the EU, member of the Expert Panel, to give a brief presentation on the work done on the revision of Financial Rules and Rules Related to Projects. The Expert of the EU commented that the document has become very thick because it was a comprehensive document with seven annexes. She noted that ITTO was a self-standing body and did not have access to various UN bodies that might perform some of the functions outlined, such as the UN Board of Auditors and Joint Inspection Unit, which was why the document was so large. She added that all members of the Expert Panel had worked in their personal capacity and not as representatives of their governments.

74. The Expert of the EU noted that the document was not shown with track changes because the current financial rules were written in a repetitive way, and the revised version had been restructured to deal issue by issue, indicating how the rules would be applied to the different accounts.

75. The revised financial rules incorporated the contents of Council Decisions relevant to the financial rules so that the rules were all in one place. However, the revised financial rules did not explicitly refer to the Council Decisions that were to be abolished or modified once the financial rules were adopted: i.e. Decision 3(XXXV), which established the Executing Agencies Account, because the EAA would be abolished; and Decision 7(XII), which established the WCR, because it would be renamed as the Working Capital Reserve. The Expert of the EU suggested that, in any decision, it might be advisable to add a paragraph to say specifically which elements were being abolished.

76. The Chairperson proposed to review the revised Staff Rules, section by section, wherever a change was proposed. The Committee accepted this approach, provided that a scrutiny reserve could be placed on certain issues, so that these could be returned to when the document had been reviewed once.

77. The consultant explained that the thinking behind adding a provision to withhold the Organization’s share of a staff member’s Provident Fund in the case of summary dismissal, under Rule 501 (d), was that there was no provision for penalty on summary dismissal in the current rules. The delegate of Switzerland asked what the mechanism would be for withholding the pension fund, which parties would decide to withhold, and whether it would be legal to impose such a decision.

78. The Panel explained that this provision would only apply to summary dismissal, which was a very high level of disciplinary action that could be executed by the Executive Director when a staff member caused

material damage to the Organization. The withheld Pension Fund would be expected to recoup, or partially recoup, such material losses.

79. The delegate of Brazil inquired where such income would be credited. The Expert Panel advised that it should be credited to Miscellaneous Income in the Administrative Account, which was established in the current account structure. As the Panel advised, the Committee decided to add text to the Rule to clarify that the funds were to be deposited in the Administrative Account.

80. On who would decide on such an action, and its legality, the Secretariat informed the Committee that the Provident Fund manager had confirmed that the fund manager could keep a separate account of the contributions by an individual and by the Organization; at the time of departure of the individual, the opportunity would exist for the Organization to say that its contribution to the pension fund would not be released to the staff member.

81. The UNCTAD Legal Advisor raised the need to ensure due process, because the current text of the revised rules did not have a provision for a dispute tribunal. The Panel noted the importance of ensuring due process and considered various options. The delegate of Brazil suggested elaborating the mechanism of the Joint Disciplinary Committee (JDC), so that due process could be ensured without additional costs for external arbitration. The delegate of Switzerland asked if it would be possible to add outside expertise to the JDC to empower due process.

82. The delegate of Peru asked the Panel if the JDC would be able to dismiss the Executive Director in the case of serious misconduct. The Panel explained that the JDC would be an advisory body, with no power to impose dismissal on anybody, including the Executive Director.

83. The Panel replied to the question from Switzerland that the Committee may add more clarity to Rule 501, or the Council may revisit this item at the next session to deliberate on external arbitration.

84. The Panel informed the Committee that the revised staff rules provided two rounds of due process – the JDC as an internal process, and appeal to Council Officers as an external process. The Legal Advisor expressed the opinion that the appeal to Council Officers would not function as external arbitration.

85. The Panel invited the delegate of Japan to inform the Committee of the provision for waiving immunities in Article 20 paragraph 2 of the Headquarters Agreement, which stipulated that: “The Council may waive immunities accorded to the Executive Director under this Agreement”. The delegate of Brazil suggested that text be added to Rule 804 of the revised financial rules to make reference to this provision in the Headquarters Agreement. The Legal Advisor proposed the following text: “In case the staff disagrees with the decision of the JDC, the Council will waive immunities accorded to the Executive Director in accordance with the Headquarters Agreement.” He welcomed the idea of making reference to the Headquarters Agreement because it would provide access to justice at no cost to the Organization. This proposal was considered by the Committee but was not adopted.

86. The consultant explained to the Committee that the Whistleblower Policy, which had been adopted at the Forty-ninth Session of the Council in 2013, had been incorporated in the revised staff rules, with some modifications to add stronger protection for whistleblowers.

87. The delegate of the USA, supported by the EU, commented that it was important for a whistleblower policy to offer staff a means outside the internal reporting mechanism, which was the reason why the policy indicated Council Officers as points of contact, but there was a need to make contact information for those Council Officers available to staff.

88. The Chairperson referred to Appendix 2 of the report of the Expert Panel on the proposed standards of conduct of the ITTO Executive Director and invited comments from the floor.

89. The delegate of the EU fully supported the proposed standards of conduct and thanked the USA member of the Expert Panel for her role in suggesting them and preparing the text. The delegate of the EU suggested that the standards needed to be adopted as a self-standing decision and, if this were done, the first paragraph of the document would be unnecessary.

90. The delegate of the USA noted that there was a need to clarify the mandate of the Panel and outline the procedures to be followed to terminate the Executive Director's contract. She proposed alternative language for the current paragraph 7, which she dictated to the Secretariat.

91. The delegate of the EU inquired whether the Decision to remove the Executive Director would require a physical meeting, as in such case the process could not be executed in a timely and effective manner. The consultant responded that the Decision could be adopted as Decision without Meeting, under the current provisions.

92. The delegate of Cameroon expressed the view that the first step of the logical process was to formally note the gross negligence, and the proposed text lacked that aspect. The text was modified as requested.

93. The delegate of Switzerland proposed adding a paragraph to the effect that the Executive Director would, at least one year in advance, bring to the attention of the Council the pending end of his or her term, to enable the Council to make an informed decision on whether to extend the term or to start a new recruitment process.

94. The delegate of Cameroon suggested that such an addition was not needed, but the delegate of Switzerland, supported by Australia, expressed the view that experience indicated that it would be helpful.

95. The delegate of Togo inquired whether, should the Proposed Standards of Conduct for the Executive Director be adopted, it would be reviewed by a lawyer before it became binding.

96. The Expert of the USA responded that, no, a lawyer had not looked at it, although it might be a helpful step. She commented that few examples could be found of standards of conduct for heads of organizations, and therefore that this document was largely uncharted territory.

97. The Chairperson asked the Committee whether, on the basis of the discussion, any elements were missing from the draft Decision on Amendments to the Staff Regulations and Rules, noting that this draft decision would also be discussed in the Chairperson's Open-Ended Drafting Group.

98. The delegate of the USA queried the date at which the amended Staff Regulations and Rules would come into effect and pointed out that this date should precede the date of appointment of the new Executive Director. The Chairperson agreed that this should be borne in mind in the drafting process.

99. The Chairperson invited the Consultant, Mr. David Brooks, to introduce the changes to the Financial Rules and Rules Relating to Projects. The Consultant informed the Committee, paragraph by paragraph, about which parts of the Financial Rules had not changed, and which had changed. Thereafter, the Chairperson facilitated the Committee's review of those changes.

100. The delegate of the EU indicated that nowhere in the Financial Rules was the purpose of the Special Reserve explained, and it should be. Moreover, there was a need to review the amount that should be contained in this Reserve. The Secretariat provided a definition of the Special Reserve, drawn from the audit report, and the Consultant suggested, supported by the EU, that an appropriate place for it would be Rule 5, Paragraph 7. The delegate of the EU proposed text to amend Paragraph 7.

101. The Consultant informed the Committee that the new element of Rule 4 was paragraph 5. The delegate of the EU indicated that, in other multilateral environment agreements, information on Member's payments of dues was made available publicly by placing it on the relevant website as a means of transparency, but the delegate of the USA, supported by Benin, indicated that such an alteration would not be acceptable.

102. The Chairperson, supported by the EU, proposed leaving the text as it was and including, in the agenda of the next session of the Committee, the examination of the issue of arrears with a view to developing a policy to reduce them and to encourage members to pay them. The Committee agreed with this proposal.

103. The delegate of the EU requested that the Committee report note that, under the new IPSAS, it would be necessary to write off, as assets, arrears that were more than four years old and that, therefore, this issue would become increasingly evident in the accounts. She further proposed that this issue be placed on the agenda of the Committee at its next session.

104. The delegate of the USA suggested that the existing language in the revised rules on distributing to members such information would be a way of stimulating dialogue about members that were yet to meet their treaty obligations, without making such information available to the public.

105. The delegate of the EU indicated support for the text in paragraphs 5 and 6 of Rule 5 but noted the need to monitor how the two provisions on the Working Capital Reserve worked together. She requested that this be noted in the Committee report.

106. The delegate of the EU reminded the Committee that Decision 2(XXXIV) on Management of the Administrative Budget requested the Executive Director to review the status of the WCR and report to Council should its balance fall below $2.5 million at any time. This Decision was contradictory to the new financial rules that stipulated that the Executive Director report to Council when the WCR fell below 15% of the annual budget, which would currently be much less than $2.5 million. The delegate stated that their intention was that they did not want as much as $2.5 million in the WCR. The Chairperson suggested this be noted in the Decision on adopting the Financial Rules.

107. The delegate of the EU requested clarification from the Secretariat on the purpose of paragraph 3 of Rule 9 and then proposed an amendment to the text as follows: “the expenses of translation of project and pre-project documents being submitted to the Council and its committees into ITTO working languages”. The Chairperson sought the views of other members to this change, and there were no objections.

108. The delegate of the EU noted that paragraph 1 of Rule 19 mentioned annual performance reviews but did not indicate who was to do these. She proposed adding “by the Council” to the relevant sentence, and the Secretariat confirmed that this was the intention of the sentence.

109. Also on Rule 19, the delegate of the EU requested that the report of this Committee session refer to the need to examine whether it would appropriate or of interest for supreme audit authorities to conduct audits of the Organization’s accounts, given that there was a question about the independence of private firms from the Secretariat. She informed the Committee that her delegation had been advised that there would be no legal difficulties with such an approach.

Japan later submitted clarification on the rules in Japan as follows:

> “The Certified Public Accountant Law of Japan stipulates that no person (including both natural person and juridical person) other than a certified accountant or an audit corporation qualified under that law shall operate audit services for fees.
>
> “In meantime, the Headquarters Agreement between the Government of Japan and the International Tropical Timber Organization stipulates that it is the duty of ITTO to observe the laws and regulations, without prejudice to the privileges and immunities accorded by that Agreement (such as, immunity from legal process) to ITTO itself.
>
> “Given these provisions under our domestic law regulating the audit services in Japan and the Headquarters Agreement requiring ITTO to observe such laws, it is the view of the Government of

Japan that ITTO obviously needs to select its auditors from the entities qualified under the Certified Public Accountant Law of Japan."

110. The Consultant introduced Chapter 7, on investment, which was a completely new chapter that provided guidance in the form of definitions and direction, as well as a cross-reference to Annex 6 on the Investment Policy[2] which is a further elaborated guidance. He noted that an important addition was paragraph 1, subparagraph c, which required that all losses must be reported at once to the Council.

111. The delegate of Peru asked whether such a system for investment existed in other organizations in the UN family. He questioned whether it was correct that an intergovernmental organization such as ITTO had procedures for investment, which entailed risk, since ITTO should place its funds at zero risk.

112. The consultant responded that Rule 21 and the policy in Annex 6 on the Investment Policy to that rule provided detailed guidance and transparency with respect to all aspects, including on the matter of the specific instruments to be used and the level of risk that was acceptable. He pointed out that none of that elaboration was previously available to the Organization. Other parts of the Financial Rules provided for the Organization to benefit from interest earned from various accounts, and to do that required guidance. The concept of risk was also fully elaborated in the Annex 6 on the Investment Policy.

113. The Expert of the USA indicated that a number of international organizations used similar language providing guidance on investment.

114. The delegate of the EU suggested that there might be a linguistic difference in the term "investment" between English and Spanish. She also said that the UN Treasury Department invested the funds of UN bodies, but this facility was unavailable to ITTO and therefore a policy was needed. She also suggested that paragraph 2 of Rule 21, which indicated a role for the CFA, implied a need to amend the terms of reference of the CFA, which currently had no such role, and this should be done in a separate decision.

115. The Chairperson suggested that attention might be paid to the wording on "investment" to avoid linguistic uncertainties. It was noted that "investment" was defined in paragraph 1 of Rule 21.

116. The consultant informed the Committee that Rule 25 was provided for the purpose of assuring reporting on project disbursements to Members in a more frequent and transparent manner. The delegate of Benin asked if the term "periodically" in paragraph 1 of the Rule could be more specific. The Expert of the EU explained that the adequate frequency of reporting would depend on the project: e.g. for a 5-year project, an annual reporting would be sufficient, while it should be more frequent for a project of shorter duration.

117. The consultant gave a general overview of the annexes which were listed as follows:

- Annex 1: Criteria and Priorities to Finance Actions/Activities, Pre-projects and Projects under Sub-Account B of the Bali Partnership Fund;
- Annex 2: Audit & Financial Statements Reporting Cycle Procedural Manual;
- Annex 3: Auditing Standard;
- Annex 4: Financial Delegations Procurement & Disbursements Manual;
- Annex 5: Charter for the Investment Oversight Panel;
- Annex 6: Investment Policy; and
- Annex 7: Procurement & Tender Manual.

118. The consultant informed the Committee that Annex 1 was also in the current financial rules and was unchanged from that. Annexes 2–7 were new; three of them (Annexes 2, 4 and 7) were procedural manuals,

2 Annexes referred hereto are as contained in Document ITTC(LII)/11(b). The sequences of the annexes were later renumbered when they were adopted as annexes to Decision 4(LII) on Revision of ITTO Financial Rules and Procedures.

two (3 and 6) were policy annexes, and Annex 5 described the charter of the Investment Oversight Panel (IOP), which was one of the new and additional elements related to the financial governance of the Organization.

119. The Expert of the EU requested that the Council Decision draw attention to the creation of the IOP, and she pointed out it would be necessary to indicate how the panel members would be nominated. The Chairperson proposed to return to this point.

120. The Consultant introduced Annex 2, which was related to the preparation of the audit and financial statements of the Organization.

121. The delegate of the EU inquired where the requirement for the audit report to be made public was stated. The Secretariat indicated that this was stated in Appendix 1 of Annex 3.

122. At the request of the Chairperson and in the interest of clarity and transparency, the Secretariat proposed to repeat text from paragraph 12 on page 101 of the document at the end of paragraph 3, sub-paragraph 3 on page 90 of the document, to the effect that "Once Council approves the audited financial statements, the Executive Director shall post the full external audit report on ITTO's publicly accessible website". The delegate of the EU endorsed this language and requested that it be added as a separate paragraph, 3 bis.

123. The delegate of Brazil observed that the words "procedural manual" in the title was more indicative of suggestions or instructions and did not fully convey the meaning that the procedures should be followed as an obligation. He proposed, supported by the EU, that the title should be "Audit and Financial Statements Reporting Cycle Procedures", and the Committee adopted this amendment.

124. There was discussion of whether the auditor's report should be placed on the Organization's publicly accessible website before Council approval, with one delegate pointing out that some organizations in the UN family did so and others did not. The Chairperson suggested that the overall transparency of ITTO documentation could be the subject of discussion at the next meeting of the CFA.

125. The Consultant introduced Annex 3, which provided detailed standards required for the auditing of the Organization's accounts. The Committee adopted this annex.

126. The Consultant provided a brief introduction to Annex 4.

127. The delegate of the EU asked why there were procurement procedures in Annex 4, when procurement procedures were the subject of Annex 7.

128. At the request of the Chairperson, the Consultant suggested a change in the title of Annex 4 to remove the word "procurement", so that the full title would read, "Financial Delegations and Disbursement Procedures". The Committee adopted this suggestion, and the delegate of the EU requested the Secretariat to ensure that any title changes in the annexes were carried through into the main text of the Financial Rules. Annex 4 was duly adopted.

129. The Consultant introduced Annex 5.

130. The delegate of Brazil suggested that, given that the charter of the IOP was directly related to the investment policy in Annex 6, the order of these two annexes might be better reversed. After discussion of both annexes, this suggestion was adopted.

131. The Committee discussed ways of providing greater clarity to the composition of the IOP: for example, whether the two non-Secretariat members should be "external", and what constituted a quorum. The Chairperson requested the Secretariat to develop proposals for amendments to the text.

132. The delegate of the EU requested clarification on whether it would be possible to distribute reports of the IOP to the CFA and the Informal Advisory Group (as stated in Section 11 of the annex) intersessionally. At the request of the Chairperson, the Consultant suggested an amendment to Section 11, paragraph 2, to "provide draft minutes to the chair of the CFA and to the Informal Advisory Group through the Council Chair".

133. The Expert of the USA informed the Council that the Expert Panel had concluded that it was worth the effort to attempt to find relevant experts within government to fill the "external" positions of the IOP. Section 13 of the annex, she said, indicated that the charter would be reviewed by the CFA for its relevance and effectiveness and it would therefore be possible to amend the charter in light of experience.

134. The Chairperson requested that it be pointed out in the Committee report that the creation of the IOP might have budget implications and that the CFA would review the charter on the basis of experience. It was to be a living document, and, if adjustment was needed, it was the CFA's role to do this.

135. The Consultant introduced Annex 6.

136. The delegate of Brazil informed the Council that it had many observations and specific points to make on this annex, most of which related to a concern that there was an overemphasis on "maximizing earnings", whereas a more conservative approach was preferable. He indicated that this emphasis was contradictory to wording in Rule 21.1 (a), which specifically stated "in such a way to minimize risk".

137. The delegate of the EU and the delegate of the USA expressed in-principle agreement with Brazil's concern.

138. The Chairperson invited comments on the two draft Council Decisions related to financial rules. The delegate of the EU indicated a need for further drafting to address several technical issues, such as the nomination of the chair of the IOP, and the financial implications.

139. The delegate of Brazil further observed that the annex on investment did not address long-term investments, even though those were mentioned Rule 21.1 (b).

140. The Chairperson proposed that a small drafting group would be formed to address:

- the language in Annex 6;
- the composition and selection of the members of the IOP to the task of the small working group, including to guarantee balance between producer and consumer members in the panel; and
- the terms of reference of the CFA.

141. The drafting group presented its results in the Chairperson's Open-ended Drafting Group.

142. The Committee adopted Annex 7 without change.

143. The Committee decided to recommend to Council to approve the Revision of the ITTO Financial Rules and Procedures, Audit Standards, and Relevant Staff Regulations and Rules, as contained in document ITTC(LII)/11(b).

(b) Impacts on Projects and Ameliorative Measures

144. The Chairperson invited Mr. Luke Thompson (USA), a member of the Oversight Committee, to introduce document ITTC(LII)/11(a) on "Report to the Chairperson of Council submitted by the Oversight Committee extended under Decision 2(LI.1) to oversee the implementation of ITTC Decision 4(LI)", and the Secretariat provided further detailed explanations of the annexes of the document.

145. The delegate of the EU requested a "state of play" of Table 2 in Annex 2. She further pointed out that there appeared to be two versions of a liability, one called "commitment" in Table 4, "refunds due to donors of US$3,780,000" and, on page 19, "remaining commitment in completed projects", with a value of

US$3,661,000. The delegate indicated that these values should be the same and requested an explanation of the difference.

146. The Secretariat explained that some anomalies were evident in the process for closing completed projects, especially in the last four years, which appeared to lack explanation, despite the best efforts of the Secretariat to determine the facts.

147. The delegate of the EU explained that the tables had been provided to the Oversight Committee at their second-to-last meeting and it had been difficult for the Oversight Committee to fully digest them. She said that a decision to specify a “haircut” of the budgets of existing projects of, for example, 20%, would also imply a “haircut” of all unknown liabilities of donors about which they had not been informed.

148. The delegate of Australia extended her gratitude to the Oversight Committee and the Secretariat for their efforts. Although Australia’s losses were relatively small when compared with other donors, she said, the projects funded were worth continuing and Australia had sought to return all unallocated funds to those projects. Noting the concerns of the delegate of the EU about the decision text, she agreed that the path forward proposed in the decision was sound. She volunteered Australia’s assistance in the reallocation of funds made available under the decision because continuing the projects was essential.

149. The Secretariat informed the Committee that all donors had been notified by letter of every project impacted in their accounts. He further responded to the delegate of the EU by informing the Committee that it was not quite correct that adoption of the decision would imply the writing off of US$3.8 million because this amount would remain as a liability in the accounts. Nevertheless, it was implied that the donors of impacted funds would be agreeing they would be unlikely to retrieve those funds, and perhaps the operative decision should be more explicit of this.

150. The delegate of the EU stressed that the discussion did not imply criticism of anyone. She asked the Secretariat whether the letters that were sent to donors were explicit about which part of the funds to be returned to donors remained in the accounts. She expressed concern that it might take years before donors might be able to receive their funds back, if ever. One option would be for projects to take a bigger “haircut”; she was not necessarily advocating this, but there was a need to acknowledge this option.

151. The delegate of Japan indicated that Japan was ready to reallocate the remaining balance from completed projects to help address the shortfall, and he expressed the hope that all donors would do the same to avoid the possibility of “free-riders”.

152. The delegate of Côte d’Ivoire indicated that he had taken note of the concerns of Japan and the EU and proposed that the decision provide donors with the choice of whether to have the funds returned or to leave them.

153. The Secretariat informed the Council that the letters sent to donors had been structured to inform donors of those ongoing projects to which they had contributed funds that had been impacted, how much had been impacted, and their portion of that. In addition, they were informed of which completed regular-cycle projects with balances remaining were impacted and the amount of the balance that had been impacted. Many projects were funded by multiple donors, he explained, so this had been a complicated process. There were also projects funded in the thematic programmes – including those that were completed and those that were ongoing. This was even more complicated because such projects were funded from pooled funds. The same process was done for completed and ongoing activities in the Biennial Work Programme. Donors were requested to inform the Secretariat about what they wanted done with their unallocated funds. All letters sent had a standard format. Responses to the question on what should be done with unallocated funds were either “we agree” to reallocate the funds, or “we disagree”. Approximately US$500,000 had been returned to donors from the original approximately US$1.5 million.

154. The delegate of the EU assured the Committee that it was not in the nature of the donors of the EU to act as free-riders. She requested further clarity from the Secretariat that each donor had been told that there

were completed impacted projects, with an amount of donor funds attached to it, and each donor was also given a figure for projects for which the balances remained in the donor accounts, and the letters therefore covered a grand total of US$19.5 million. The Secretariat indicated that this was correct.

155. The delegate of Switzerland confirmed that the letter received by the Government of Switzerland was indeed complicated, and further explanation had been sought and obtained from the Secretariat. There had been a request to indicate what to do with the unallocated funds, but not what to do with the funds in Section 4. The Secretariat indicated that there were no funds in Section 4, which was why the question had not be posed to donors.

156. The delegate of the EU reiterated that what was to be resolved was what to do about US$14.2 million. She proposed inserting preambular text to the decision noting that it dealt with US$14.2 million and not the refunds due to donors, which were no longer available.

157. The Chairperson drew the attention of the Committee to Annex 1 on page 6 and the table related to the decision in Annex 1. He requested interventions on the substance of the text, rather than precise wording, which would be dealt with in the Chairperson's Open-ended Drafting Group.

158. The delegate of the EU proposed that, after the preamble, where the text is "acknowledging", that the following further clause be added: "Also acknowledging that the guidelines below deal with the commitments to ongoing technical projects and activities of the Organization and do not deal with refunds due from completed projects except to the extent that those refunds were in the donor's fund account." Further, the Council should reiterate its desire to resume operation of "as many [rather than "all"] projects and activities as possible".

159. On bullet 2 on page 7, the delegate of the EU requested that text be inserted as follows: "including ITTO's contractual obligations to donors, including those set out in the final two sections of Table 4.2 of the Oversight Committee's report". The delegate of Japan confirmed that this caveat, if adopted, should also apply to Japan, as indicated.

160. On the final bullet of paragraph 1, the delegate of the EU requested that the Secretariat ensure that the language in the bullet be consistent with the decision on the Biennial Work Programme.

161. The delegate of the EU requested clarification of the necessity of placing an extra US$1 million in the Special Reserve, and bracketed text was added to the draft decision for consideration in the Chairperson's Open-ended Drafting Group. The delegate asked the Secretariat to comment on whether the additional funds were needed.

162. The Secretariat clarified that, assuming all posts in the Secretariat were filled, which currently they were not, there were insufficient funds in the Special Reserve to wind up the Organization, should that be required. The delegate of the EU suggested that a contribution be made to the Special Reserve from the Working Capital Reserve that was less than the proposed US$1.5 million, which would make more funds available for current purposes. She requested that it be noted in the report of the Committee that the issue of the Special Reserve should be revisited at the next CFA meeting. The Chairperson also proposed that this proposal be considered in the Chairperson's Open-ended Drafting Group.

(c) Legal Implications

163. The Chairperson referred to document ITTC(LII)/11(a), with particular attention to legal proceedings against the investment advisor who sold the products that led to the loss of US$18.2 million of ITTO funds. The Chairperson advised the Committee that this matter would be discussed in the Council Sessions and thus the Committee would not deliberate in detail.

Item 12: Biennial Work Programme of the Committee for 2017-2018

164. The Secretariat informed the Committee that due to the extension of the Biennial Work Programme 2015–2016 there was nothing to discuss under this item.

Item 13: Request by the Central African Republic for 'Relief from Obligations'

165. The Committee, at its Thirtieth Session, had deliberated on the request made by the Central African Republic to consider write-off of its arrears in line with Article 30 of the ITTA, 2006, on "Relief from Obligations" and decided that the letter should be circulated to all Member countries. The letter has been made available to Member countries as contained in CFA(XXX)/CRP-1. The Committee, at its Thirtieth Session, 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 the Thirty-first Session. At the present session, the Committee was informed that the Council Chair had determined that, given that there was no representative of the Central African Republic present, this item should not be considered at this session.

Item 14: Election of Chairperson and Vice-Chairperson for 2017

166. The Vice-Chairperson of the Committee for 2016, Mr. Mad Zaidi Mohd Karli of Malaysia, was elected Chairperson of the Committee for 2017 and Mr. Luke Thompson of the USA was elected Vice-Chairperson of the Committee for 2017.

Item 15: Dates and Venue of the Thirty-Second and Thirty-Third Sessions

167. The Committee agreed that its Sessions may be held on the same dates and at the same venues as the Fifty-third and Fifty-fourth Sessions of the Council.

Item 16: Other Business

There was no other business.

Item 17: Recommendations to the International Tropical Timber Council

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

(1) To adopt 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 Rev.1;

(2) To adopt the Report of the Independent Public Accountants on the Accounts of the Organization for the Financial Year 2015 as contained in document CFA(XXXI)/6;

(3) To approve the appointment of BDO Toyo & Co. to audit the Accounts of the Organization for the financial year 2016, as an exceptional extension of appointment, provided that the quality and scope of audit is in compliance with the revised Financial Rules and there is no increase in the bid already made to the Organization;

(4) To approve the transfer of $350,000 from the Working Capital Reserve to increase the amount of Special Reserve to $1.85 million; and

(5) To examine and take actions to secure the needed resources to achieve the objectives of the Organization.

Item 18: Report of the Session

168. The Committee adopted this report as amended.

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