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Report and recommendations of the Finance Committee

Item 13 of the provisional agenda of the Council**

Report of the Finance Committee

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I. Introduction

1. During the twenty-third session of the International Seabed Authority, the Finance Committee held six meetings between 2 and 4 August 2017.
2. The following members of the Committee participated in the meetings during the twenty-third session: Frida María Armas-Pfirter, Duncan M. Laki, Konstantin G. Muraviov, Hiroshi Onuma, Andrzej Przybycin, Kerry-Ann Spaulding, Ahila Sornarajah, Reinaldo Storani, Zhi Sun, Ye Minn Thein, James Ndirangu Waweru, David Wilkens and Kenneth Wong. The Committee was in full attendance. The following members had resigned from the Committee: Olivier Guyonvarch and Koteswara M. Rao. Following past practice, Didier Ortolland participated in the meetings of the Finance Committee prior to his formal election by the Assembly for the remainder of the term of office of Mr. Guyonvarch.
3. On 2 August 2017, the Committee adopted its agenda ([ISBA/23/FC/1](#)) and elected Mr. Przybycin as Chair and Mr. Thein as Vice-Chair.

II. Implementation of the budget for the financial period 2015-2016

4. The Committee received an analysis of the budget performance of the International Seabed Authority for the financial period 2015-2016, which shows an implementation rate of 99.3 per cent (see [ISBA/23/FC/9](#)). The Committee requested and received clarification of a number of issues, including the use of consultants, workshops and early implementation of the central data repository programme. The Committee took note of the report on the budget performance for the financial period 2015-2016. The Committee also took note of a report on the budget performance in the first sixth months of 2017.

* [ISBA/23/A/L.1](#).

** [ISBA/23/C/L.1](#).



III. Audit report on the finances of the International Seabed Authority for 2016

5. The Committee took note of the report and the opinion of the auditors that the financial statements of the Authority reflect fairly and truly the financial position of the International Seabed Authority as at 31 December 2016 and of its financial performance and cash flows for the year, in accordance with the financial regulations of the Authority, the United Nations system accounting standards and the International Public Sector Accounting Standards (IPSAS).

6. The Committee commended the Secretary-General for the Authority's proper accounting records, as highlighted by the auditors in their report.

7. In reviewing the financial statements for the year ended 31 December 2016, the Committee requested further information on a number of items, including overspent budget lines and the new line on depreciation of fixed assets, introduced as a result of the implementation of IPSAS. The Committee thanked the Secretary-General for the additional information provided.

IV. Appointment of an independent auditor for 2017 and 2018

8. The Committee decided that the independent auditor should be appointed for a four-year term in accordance with regulation 12.1 of the Authority's financial regulations. After discussion, the Committee decided to recommend to the Assembly the appointment of Ernst & Young, the lowest bidder for the scope of work required, as an independent auditor for a four-year term covering the financial periods 2017-2018 and 2019-2020 (see [ISBA/23/FC/3](#)).

V. Review of costs of conference services and possible further cost-saving measures

9. The Committee was provided with a thorough report on steps taken to effect savings with respect to conference services as well as possible further cost-saving measures ([ISBA/23/FC/8](#)). The Committee expressed its appreciation to the Secretary-General for the efforts being made to effect savings in the budget of the Authority and took note of the measures taken by the Secretary-General to constrain any further unexpected increases in the overall cost of conference services. The Committee also requested him to continue those efforts and to submit a report thereon in 2018.

10. The Authority invited bids to provide interpretation to the Finance Committee and the Legal and Technical Commission. Only one valid bid was received, from Interprefy, a remote web-based service. Using the company's service would decrease the costs of interpretation by almost 50 per cent as compared with the use of United Nations interpreters.

11. Both the Legal and Technical Commission and the Finance Committee tested the service for part of their meetings on 3 August 2017 and individually rated the service. Members were provided the opportunity to question the company after the test. Overall, the evaluation scores given by members were positive, with 81.7 per cent giving a positive rating. Audio quality and technical reliability were given more weight to reflect the fact that interpreters could be replaced in case of poor performance. There were nonetheless some concerns, particularly regarding the quality of interpretation into specific languages. The United Nations interpreters who were present during the test set out their views and suggestions in a paper, which the Committee found very helpful.

12. The Committee recommended that the company's services be used for the Finance Committee and the Legal and Technical Commission in 2018 and then assessed. This is subject to the Secretary-General being able to agree on appropriate terms with Interprefy, in particular to ensure: (a) confidentiality as regards discussions of the two bodies; (b) the quality of interpreters for all required languages; (c) sufficient preparation by interpreters, including familiarization with the work of the Authority; and (d) ensuring the use of an English booth.

VI. Status of the Endowment Fund for Marine Scientific Research in the Area, the Voluntary Trust Fund and related matters

13. The Committee took note of the balance of the Endowment Fund for Marine Scientific Research in the Area in the amount of \$3,500,009 as at 31 May 2017, including interest accrued in 2017 of \$554,747 intended to be utilized to support the participation of qualified scientists and technical personnel from developing countries in marine scientific research and approved programmes. With respect to the Voluntary Trust Fund, the balance stood at \$92,893 as at 31 May 2017, which is critically low (see [ISBA/23/FC/7](#) and [ISBA/23/FC/4](#)). This unsustainable level cannot guarantee the operation of the Fund beyond 2018 (see sect. XI below).

VII. Status of the Working Capital Fund

14. The Committee noted that, as at 31 May 2017, the balance of the Working Capital Fund was \$581,983 and that the balance of \$78,017 would be collected between 2017 and 2020 (see [ISBA/23/FC/7](#)).

VIII. Status of the implementation of the International Public Sector Accounting Standards by the Authority

15. The Committee received a report on the status of implementation of IPSAS by the Authority ([ISBA/23/FC/5](#)). The Committee expressed its appreciation for the impact of IPSAS on the financial statements during the review of the audit report for 2016. It took note of the progress made to date and the plans for full IPSAS implementation for the financial statements for the year ending 31 December 2017.

IX. Implementation of the budget format and structure and proposed measures to further enhance accountability, transparency and programme management

16. The Committee welcomed the six-month period of implementation of the new budget format and structure, which had already resulted in enhancing transparency and strategic planning. The new format and structure would also make possible more detailed reporting on the results achieved in each programme area.

17. It was recalled that the budget format would be kept under review and would evolve in time and with the possible introduction of a strategic plan for the Authority, especially in view of the recommendations from the article 154 review. The Committee took note of the report and requested the Secretary-General to recommend possible further changes to the budget format in the next draft budget and with respect to the need for explanatory notes in the future.

X. Status of overhead charges for the administration and supervision of contracts for exploration and the extent to which they reflect costs actually and reasonably incurred

18. As requested in 2016, the Committee received a report on the administrative fee of \$47,000 to cover overhead costs for the administration of exploration contracts in the Area and the extent to which it reflected costs actually and reasonably incurred (see [ISBA/23/FC/6](#)). As agreed, the level of the fee is to be reviewed periodically to ensure that it is commensurate with actual costs. According to section 10.6 of the standard clauses for exploration contracts, the amount of the annual overhead charge may be revised by the Authority to reflect its costs actually and reasonably incurred.

19. As detailed in the report, costs have evolved since the introduction of the fee of \$47,000. Actual costs for one contract amounted to \$65,613. The Committee identified the increased complexity of the annual reports as well as regular inflation as the main reasons for the increase.

20. Given the need for further consultations before recommendations are made for an increase, the Committee felt it to be premature to recommend an immediate increase of the administrative fee and asked the Secretary-General for a further assessment of the costs and consultations with contractors on possible cost-saving measures. Based on the outcome of the assessment of the costs and consultations, the Committee will in all likelihood make such a recommendation at its next meeting, in 2018.

21. The Committee stressed that an increase in the costs of the administration of exploration contracts should not be borne by member States.

XI. Implementation of the rules governing the management and administration of the Voluntary Trust Fund and related matters

22. The Committee expressed its deep concern over the status of the Voluntary Trust Fund (see [ISBA/23/FC/4](#)). In 2016, the travel costs for 11 members of the Finance Committee and the Legal and Technical Commission totalled \$107,017. The increased number of members of the Commission and the Committee will result in an increase in financial assistance needs. If the level of the Fund remains the same, funding for members from developing countries participating in meetings of the Finance Committee and the Legal and Technical Commission will run out by the end of 2018, and the Fund will be completely depleted.

23. Exploring ways of ensuring the long-term sustainability of the Fund is of critical importance not only to facilitate adequate participation in meetings of the Finance Committee and Legal and Technical Commission, but also to ensure a quorum, which will support the continued transparency and maintain the quality of governance, discussions and decisions of the Authority.

24. Consequently, it is now imperative to introduce strategies to counter the depletion of funds and to promote the long-term sustainability of the Fund. One way is to increase the level of funding, and in that regard the Committee urges member States and others to make contributions to the Fund as soon as possible.

25. In the meantime, despite constant appeals for additional contributions, the pool of donor member States has not expanded. As a result, the Secretary-General requested the Committee to provide guidance on how to prioritize the awarding of

limited funds. The Committee has therefore recommended revisions of the criteria for the use of the Fund. The Committee urges the Secretary-General to ensure compliance with the revised criteria. The suggested revisions are set out in the annex to the present report.

26. The Committee recommended that, in the event that the status of the Fund does not enable him to accommodate all requests for financial assistance before any upcoming meeting, the Secretary-General apply other measures to prioritize the awarding of funds as appropriate.

XII. Comprehensive review of the United Nations common system compensation package

27. The Committee took note of the changes to the compensation package for staff of the Authority in the Professional and higher categories and noted that those changes would have no financial implications on the administrative budget of the Authority (ISBA/23/FC/2).

XIII. Other matters

A. New member of the Authority

28. The Committee recommended that Azerbaijan, which had become a member of the Authority on 16 June 2016, pay the amounts shown below as its contributions to the general administrative budget of the Authority for 2016 and 2017 and provide its proportion of the total advances to the Working Capital Fund, which are to be paid evenly over the four-year period 2017-2020. In accordance with financial regulation 7.1, those contributions are classified as miscellaneous income.

Membership		United Nations scale of assessment (percentage)		Adjusted International Seabed Authority scale (percentage)		Contributions to the general administrative budget (United States dollars)		Advances to the Working Capital Fund (United States dollars)	
State	Date of beginning	2016	2017	2016	2017	2016	2017	2016	2017
Azerbaijan	16 June 2016	0.06 ^a	0.06 ^b	0.081	0.081	2 545 ^c	5 280 ^d	–	123 ^e
Total						2 569.61	5 139.21	–	123

^a General Assembly resolution 70/245.

^b The United Nations assessment rate for Azerbaijan is set at 0.060 per cent (ST/ADM/SER.B/955).

^c For 2016, contributions from member States, net of estimated surplus and net of the European Union contribution: $0.00081 \times \$5,779,711 \times 199 \text{ days}/366 = \$2,545$.

^d For 2017, contributions from member States, net of estimated surplus and net of the European Union contribution: $0.00081 \times 6,518,462 = \$5,280$.

^e The Working Capital Fund ceiling is \$660,000, less advances from the United States of America in 1998 and the European Union = $\$604,330 \times 0.00081 = \490 payable over 4 years.

B. Investments of the Voluntary Trust Fund

29. The Committee noted that, in accordance with financial regulation 9.1, the secretariat would reinvest the Voluntary Trust Fund's current balance of \$184,240 with Jamaica Money Market Brokers Ltd. in order to get a higher rate.

C. Functions of the Finance Committee in relation to the preparation of draft regulations on the exploitation of mineral resources in the Area

30. An exchange of views took place regarding the impact on the workplan of the Committee as a result of the preparation of draft regulations on the exploitation of mineral resources in the Area together with the road map and timeline for regulatory advancement. Several areas were identified that will require input by the Committee.

31. In view of the fact that the formulation of rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area and the decisions to be made thereon is a matter solely within the purview of the Committee, it was requested that the Secretary-General prepare background information for a preliminary consideration of the matter at its next meeting and circulate it ahead of the meeting.

32. The Committee may also be required to work on rules and procedures for the use of a possible economic assistance fund as well as draft provisions with financial implications.

33. In respect of the draft regulations the Committee also expressed its intention to exchange views with the Commission at its next meeting on a possible timeline.

D. Arrears

34. The Committee expressed its concern about the outstanding contributions from member States in arrears for two or more years in the period 1998-2017. As at 15 July 2017, \$1,897,689 remained outstanding. This includes an amount of \$1,337,724 relating to 2017; \$378,583 relating to 2015-2016, with a balance of \$181,383 relating to previous financial periods. Some \$1,605,783 is due by 20 members, representing 85 per cent of the total amount outstanding. The Committee requested the Secretary-General:

(a) To, with the Committee's assistance, contact coordinators of regional groups in New York to request that they remind their members of their obligation to address their outstanding financial contributions;

(b) To draft a letter to be sent to those members in arrears, highlighting the importance of financial contributions to the Authority's work and the implications of non-payment;

(c) To continue his other efforts to recover arrears, including bilateral efforts.

E. Miscellaneous matters

35. The Committee welcomed and appreciated the advance publication of its documents on the Authority's website and encouraged the Secretary-General to continue that practice. In particular, the Committee requested early circulation of the proposed budget for the period 2019-2020.

36. The Committee also studied a proposal by the Secretary-General on a revised schedule of meetings ([ISBA/23/A/5/Rev.1](#)). In its discussions, the Committee highlighted possible advantages with respect to the organization of work. The Secretary-General demonstrated its cost-neutrality with respect to the administrative

budget. At the same time it was pointed out that the proposal would have financial consequences for delegations and would also be likely to increase requests for funding from the Voluntary Trust Fund. Regarding the meetings of the Finance Committee in particular, a preference was expressed to retain flexibility in terms of the length and frequency of meetings that would be required, depending on the workload on the agenda of the Committee.

XIV. Recommendations of the Finance Committee

37. In view of the foregoing, the Committee recommends that the Council and the Assembly of the Authority:

- (a) *Appoint* Ernst & Young as the Authority's independent auditor for a four-year term for the period 2017-2020;
- (b) *Urge* the members of the Authority to pay their assessed contributions to the budget on time and in full;
- (c) *Note with concern* the increasing amount of outstanding contributions, appeal once more to the members of the Authority to pay outstanding contributions to the budget of the Authority from previous years as soon as possible, and request the Secretary-General, at his discretion, to continue his efforts to recover those amounts, including by implementing the recommendations set out in paragraph 34 of the present report;
- (d) *Note with concern* that the current status of the Voluntary Trust Fund compromises its operation beyond 2018;
- (e) *Urge* members and other possible donors to make voluntary contributions to the Endowment Fund and Voluntary Trust Fund of the Authority;
- (f) *Revise* the criteria for the management and use of the Voluntary Trust Fund as set out in the annex to the present report;
- (g) *Note* that, in accordance with regulation 9.1 of the Authority's financial regulations, the secretariat would reinvest the current balance of \$184,240 in the Voluntary Trust Fund with Jamaica Money Market Brokers Ltd in order to get a higher rate;
- (h) *Take note* of the Authority's progress in implementing IPSAS;
- (i) *Take note* of the implementation by the Authority of the revisions to the compensation package for staff in the Professional and higher categories in line with the recommendations of the International Civil Service Commission, as adopted by the United Nations General Assembly;
- (j) *Take note* of the implementation, currently in progress, of the new format and structure of the budget for 2017-2018;
- (k) *Take note* of the implementation of remote simultaneous interpretation for the meetings of the Legal and Technical Commission and the meetings of the Finance Committee in 2018.

Annex

Terms and conditions for the use of the Voluntary Trust Fund of the Authority

The Finance Committee,

Bearing in mind that the Legal and Technical Commission and the Finance Committee discharge essential functions that are prerequisites for the decision-making of the International Seabed Authority, drawing upon the personal qualifications and experience of their members,

Mindful of the need to enhance the participation of all members of the Commission and the Committee, without which the Authority would not be able to benefit from the necessary expertise in a balanced fashion,

Recommends as follows:

1. The Voluntary Trust Fund should be continued. The purpose of the Fund is to defray the costs of participation of members of the Legal and Technical Commission and the Committee from developing countries.

2. The Voluntary Trust Fund is funded by voluntary contributions from members of the Authority. The Fund is also open to contributions from others, including other States, relevant international organizations, academic, scientific and technical institutions, philanthropic organizations, corporations and private individuals.

3. The terms and conditions for the use of the Fund will be as follows:

(a) A formal request by the Government which nominated the member must be made to the Secretary-General of the Authority no later than three months in advance of the opening of the meeting, indicating why the costs of participation cannot be met by the Government concerned;

(b) Priority should be given to members from least developed countries;

(c) Where relevant, consideration should be given to the continuity in attendance of the member at prior meetings;

(d) Airfare costs shall be for economy class travel. Where special needs justify an exception, this shall be reported to the Finance Committee;

(e) In considering all applications received, if the balance of the voluntary trust fund is insufficient to fund all requests, other appropriate measures may be undertaken by the Secretary-General;

(f) The Secretary-General should inform the Government concerned of the outcome of the request no later than two months in advance of the opening of the meeting.

4. The Secretary-General shall report to the Committee annually on the use and status of the fund. The Committee intends to continue to review the use and status of the fund in the light of the Secretary-General's report.