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FOR ACTION

Report of the Finance Committee

1. Financial statements 2008

As stated in the preliminary finance report, the financial results for 2008 presented a deficit of CHF 4.2 million including investment losses of CHF 1.8 million on the restricted endowment funds. No investment losses were recorded in unrestricted funds following the decision of the executive committee in September 2008 to reduce interest rate risk on the CHF 9.3 million bond portfolio which was subsequently placed in Swiss money market funds and deposits.

A deficit of CHF 0.4 million was recorded on unrestricted and designated funds compared to a budgeted increase of CHF 0.3 million. The principal reason for the deficit was a dramatic unfavourable fluctuation of foreign currency rates at the year end adversely affecting the valuation of treasury positions. Despite this difficult financial year the general reserves closed above target at CHF 9.9 million.

The KPMG audit partner presented the *comprehensive auditor's report*, a new format of management report following revisions of the Swiss law effective in 2008. He presented the following issues:

- a) The pension fund presented a shortfall in assets of CHF 20 million at 31 December 2008. A charge of CHF 0.4 million had been included in the income and expenditure account of the council in 2008 concerning the commitment to make a 1% remedial contribution to the pension fund from 2009-2011. The audit partner clarified that, in his opinion, under Swiss law the responsibility of the employer to act as the “funder of last resort” did not require that the shortfall of CHF 20 million be presented as a potential liability of the council. In his view this would be required only after all other avenues of corrective action had been exhausted.
- b) The council had consolidated the financial results of the Ecumenical Disability Advocates Network (EDAN) for the first time, in recognition of the fact that it exercised effective control over EDAN's financial and operational policies. The audit partner emphasised the importance of clarifying relationships with other closely related organizations where WCC contributes financially, provides infrastructure services and is represented in the governance structure. If there may be financial responsibility for the council, then a fair presentation of the council's financial position requires that records be consolidated.
- c) It was confirmed that the internal control system (ICS) project launched by central committee in February 2008 had been completed satisfactorily.

The committee discussed the approval process for the annual financial statements and expressed concern over current practice compared with the standard proposed in the rules. The rules require that the finance committee recommend the financial statements to the central committee for approval. However, in practice the financial statements are approved annually for issue in early May by the officers of the finance

committee to meet the requirements of funding partners and banks. Over recent years, the practice has been for delegation of authority to approve the financial statements to be granted to the officers of the finance committee by executive committee. Formal delegation of authority from central committee to executive committee to approve the financial statements has not always been documented.

The finance committee **recommends** that central committee

- adopt the financial statements 2008 issued on 8 May 2009 with the approval of the officers of the finance committee;
- delegate authority to executive committee to approve the financial statements 2009;
- record retroactively the fact that delegation for approval of the financial statements 2008 was necessarily granted to executive committee, which recorded its delegation of authority to approve the financial statements for issue to the officers of the finance committee at its meeting in February 2009;
- require that the authority for approval and issuance of the financial statements be considered in the current review of the rules by the committee appointed to continue the task of the *working group on governance, accountability and staff policy* with attention to both practical considerations and compliance with Swiss law.

2. Audit committee report

Rev. Carmen Lansdowne, finance committee representative on the audit committee, presented the apologies of the moderator of the audit committee who had been unable to attend the meeting. She presented a report of the work of the audit committee in 2008 and to June 2009. The work included meetings to review audit planning, the status of the internal control system project, the terms of the engagement letter, financial results during the year, and the detail of presentation of issues in the draft *financial report* and the *comprehensive auditor's report*.

In June 2009, the audit committee conducted an audit tender process, in accordance with policy requiring that this step be undertaken every five years. This process resulted in a recommendation to the moderator of the finance committee to consider the appointment of PricewaterhouseCoopers as auditors for 2009, and for the four consecutive years, subject to annual appointment by central committee. The proposal for a change in auditors did not reflect any dissatisfaction with KPMG. The choice was principally motivated by a highly competitive fee offer.

The finance committee **recommends** that central committee:

- appoint PricewaterhouseCoopers as auditors for 2009, and in principle for the following four years, subject to annual appointment; and
- delegate authority to executive committee to appoint the auditors for 2010.

3. Review of the results to July 2009 and related stewardship issues

The period to June 2009 had been particularly challenging for finance management, due to reductions in expected income, both from members and specialized ministries, and the impact of foreign exchange rates. In June 2009 the approved budget was required to be revised, reducing planned expenditure by almost CHF 1 million to match the forecast reductions in income.

The results for July 2009 were presented, together with the summary of investment and foreign currency gains compared to the revised budget.

Current financial concerns included the risk of bad debts from related organizations for which WCC makes advance payments for salaries on a monthly basis. In addition, a clear target needs to be set to resolve contractual issues related to the relationship with certain organizations.

The committee reviewed the updated report on corrective actions for control weaknesses identified by staff in the self-evaluation process conducted in 2008. Actions had been taken to resolve a number of issues considered of higher risk, including the approval by executive committee of *principles of ethical business conduct* and an *anti-fraud and corruption policy*.

The finance committee **recommends** that central committee require that the following be presented at the next executive committee:

- a draft policy for the management of current accounts with related organizations; and
- the status of and target dates for the resolution of contractual issues related to the relationship with certain organizations.

4. Reflections on the report of the general secretary and the address of the moderator

The committee considered reactions to both documents, and several members raised recommendations which met with the agreement of the committee.

The committee welcomes the insights, vision and reporting from both the moderator and the general secretary. The presentations offer an important opportunity to stimulate rich discussion, reflection and improved understanding, which may not be realized to full advantage when they are read in full in the plenary.

The finance committee **recommends** that central committee require that

- the address of the moderator and the report of the general secretary be presented in summary to allow for discussion in table groups, and then in plenary;
- in the interests of ecology, that volume of paper in general being distributed be assessed, and that a target be set to significantly reduce the use of paper at governing body meetings.

5. Revision of the audit committee mandate

The finance committee prepared comments on review of GEN10 *the report of the working group on governance, accountability and staff policy* and shared these with the nominations committee as attached at Appendix 1. The comments concerned in particular the recommendation for the extension of the audit committee mandate to include risk assessments, and the management of internal audit mandates if required. In addition, it is considered, as outlined in the newly approved *anti-fraud and corruption policy*, that the audit committee is an appropriate point of contact for a staff member to raise a concern about management override of controls.

6. Budget 2010

The committee reviewed the draft budget, which presented an increase in unrestricted funds of CHF 0.35 million, compared with the target of increase in CHF 0.7 million. Restricted programme contributions are budgeted at CHF 21.7 million (compared with revised budget 2009: CHF 21.9 million), although this number remains to be confirmed by funding partners in the autumn, following funding requests issued in July 2009.

The draft budget 2010 includes total staff costs of CHF 17 million, compared with CHF 18.5 million in the revised budget 2009. The budgeted reduction of CHF 1.5 million concerns the transfer of CHF 0.5 million staff costs to ACT Alliance in 2010, and CHF 1 million in savings resulting from the decision not to refill vacancies created by staff retirements and other staff departures, but rather to reassign certain tasks.

The committee noted that the level of programme fund balances was to reduce to a level of only CHF 2.5 million in 2010. In particular, it was noted with serious concern that the general Bossey scholarship fund was to be reduced to almost zero according to the draft budget.

It was reported that the cost of a central committee was approximately CHF 0.7 million, or 12% of the unrestricted income budget of CHF 6,048 million for 2009 (or 2% of the total income budget of CHF 35,517 million). The cost of two executive committee and two officers' meetings annually was as follows:

2007	CHF 0.168 million
2008	CHF 0.186 million (includes presidents' meetings)
2009	CHF 0.08 million (costs to date: one executive committee and one officers' meeting)

Officers' meetings included in these figures are estimated at CHF 0.015 million for two meetings each year. On this basis, the average cost for an executive committee meeting is approximately CHF 0.078 million.

An alternative budget scenario was also to be drafted for review at this meeting, with an increase to unrestricted funds of CHF 1 million with the objective for providing a margin for unexpected developments or needs in 2010. At this stage, no alternative scenario has been developed to the level of a draft budget.

In his report to the central committee, the general secretary highlights at point 67 that "In preparing this alternative scenario the staff leadership group noted that, on the one hand, reductions in direct costs have brought budgets for activities and projects to a minimum viable level in many cases. This means that further cuts in direct costs cannot be realised without completely ending a number of projects. On the other hand, further reduction of staff capacity must include the termination of activities and projects."

The committee expressed concern that neither the draft budget 2010, nor the alternative scenario was submitted at target level, and that it was thus unable to fulfil its obligations in accordance with rule XI 2.(a).3 which requires that the finance committee present to the central committee "in respect of the succeeding calendar year, a budget covering all activities of the WCC and its recommendations regarding the approval of that budget...."

The finance committee **recommends** that central committee require that:

- the draft budget 2010, with an increase in unrestricted funds of CHF 0.7 million be made ready for approval by the officers in December 2009;
- a policy for the minimum required level for the annual closing fund balance for the general Bossey scholarship fund be drafted, taking into account the cost for the minimum number of students in an academic year, and that the defined limit be applied in the draft budget 2010; and
- budgeted costs for central committee be reviewed closely, by considering the offer of more modest accommodation, and by reducing the number of days by examining how time may be managed more carefully.

7. Review of the framework budgets 2011-2012

The framework budgets for 2011 and 2012 presented total cost profiles of CHF 37.6 million and CHF 35.9 million respectively, compared to total budgeted costs of CHF 33.8 million in the draft budget 2010.

Compared to 2010, increased costs were included for the IEPC in 2011 at CHF 2.3 million, for the anticipated costs of running the new Bossey conference facilities at CHF 0.9 million and for central committee, included at CHF 0.7 million in 2011 and 2012.

The targets for total income in 2011 and 2012 are set at CHF 38.6 million and CHF 39.7 million respectively, compared to CHF 33.7 million in draft budget 2010. Increased fund-raising is required for IEPC, 10th assembly and the general Bossey scholarship fund to meet these income targets. Total income also includes CHF 1 million to be generated by the Bossey conference facilities.

8. Income strategy

A progress report on the implementation of the income strategy was presented by the newly appointed director of income development, focusing on the major learnings drawn from the staff's work towards each of the five objectives. The committee recommends this document and its helpful analysis to all interested members of the central committee.

The following matters were discussed by the committee.

Concerning the objective of strengthening the relationships with specialized ministries and the ecumenical departments of member churches, emphasis should be placed not only on WCC's sharing of vision, ideas and ecumenical experience, but also on the exchange with the partners, and the fact that much may be learned in working together.

One major element in meeting the objective of continually improved relations with major partners is the organization of the annual round table meeting. Finance committee who had attended the round table meeting remarked on the absence of direct discussion on the need to raise funds for programmes.

The increase in the number of non-active and potentially non-active churches from 46 in December 2007 to 83 in December 2008 was a serious cause for concern. Efforts were required to make contact with the churches concerned, communicating and involving them in the work of the council.

One principal learning in the work with foundations was the degree of effort which was required in order that WCC might become known to foundation officers. The involvement of the general secretary or other leadership staff would be necessary in order to build fruitful relationships, as well as a focused effort on the design and delivery of project work.

The finance committee **recommends** that central committee:

- support actively the recently formed fund-raising advisory group, meeting on 3 September 2009;
- encourage initiatives to implement training for project executives on project design and impact analysis in order to improve new fund-raising prospects; and
- require that an updated income strategy 2010 to 2013 be presented at the executive committee in February 2010.

9. Major capital expenditure projects

The committee heard reports on the capital expenditure projects as follows.

a) *Fire security renovation at the ecumenical centre*

The fire security renovation project is budgeted at CHF 6.6 million, and is a four-year project moving to completion in early 2010. Although costs on electrical installations and fire security doors have been higher than planned, it is anticipated at present that the overall project may be completed at CHF 6.5 million.

b) *Renovation of the main hall*

The estimated cost of the renovation of the main hall is CHF 1.3 million, compared with the budget of CHF 1.1 million. The over-expenditure was incurred as a result of the requirement by the authorities to install sprinklers and other fire security equipment because of the hazard by the tapestry.

The committee appreciated the renovation of the main hall, in particular the agreeable daylight. The explanation for the over-expenditure was accepted as satisfactory in the circumstances.

c) *Bossey conference facilities*

The *historical monuments and sites commission* of the Canton of Vaud rejected the draft plans for the transformation of the barn and construction of a villa in March 2009. A new project has been developed in August 2009 to create a separate conference facility near the existing library, and to transform the barn for accommodation only. The estimated cost of the new project is CHF 7 million, compared with the previously approved project of CHF 7.6 million, which included the villa. At this stage, the business plan is to be updated to take account of the new configuration.

Finalization of the plans and approvals is required in order to obtain financing from the bank. Expenditure to date on architects' fees is almost CHF 0.4 million. In addition, commitments of CHF 0.2 million have been made to renovate facades of the student building.

The finance committee **recommends** that central committee require that

- Revision of the model for cost-sharing for the use of office space in the ecumenical centre by related organizations take account of a share of the depreciation charges, including those related to fire security renovations;
- Work on elements of the plan for the facility at Bossey that have not been started be suspended until the revised project and business plan has been completed; and
- The business plan for the revised configuration of the Bossey conference facilities be presented to executive committee in February 2010.

10. Capital expenditure, financing and general reserves

The committee reviewed a report on capital expenditure, comparing the actual expenditure of CHF 2 million to July 2009 with the limit of CHF 4.9 million for the full year. The capital expenditure limit had included CHF 1 million for the Bossey conference facilities project. Given the recommendations at point 9 above, it was now anticipated that only CHF 0.6 million of capital expenditure would be incurred for the project in 2010. It was requested that the revised capital expenditure limit for the year be set at CHF 4.7 million, taking account of the over-expenditure of CHF 0.2 million on the main hall.

The committee reviewed the longer term capital expenditure plans to 2012 and projections for the general reserve levels, taking account of planned increases to unrestricted funds, scheduled loan repayments, anticipated new loans for the Bossey project and the capital expenditure plans. The assumptions included CHF 1 million of new loans to be obtained for the Bossey project in 2009. Following the decision at point 9 above to postpone approval of the Bossey project until February 2010, the loan cannot be requested until 2010 which will have an unfavourable impact on the general reserves for 2009.

The committee reviewed a comparison of the anticipated level of general reserves at 2010 with the level which had been projected in 2006, when the capital expenditure plans for 2006-2011 had first been reviewed. The projected level of the general reserves at 2010 is now CHF 1.2 million lower at CHF 7.7 million. Reasons include increases in actual and planned capital expenditure of CHF 0.7 million and a reduced level of annual additions to unrestricted funds of CHF 0.5 million.

In order to maintain a level of general reserves closer to the required target of CHF 8.5 million in 2010, the addition to unrestricted funds in 2010 is to reach the target of CHF 0.7 million as emphasised in point 6 above. Further, and subject to the approval of the Bossey project, the entire project costs will require to be financed either by borrowing or fund-raising and not, in part, from general reserves as had been planned.

The finance committee **recommends** that central committee approve the revised capital expenditure limit of CHF 4.7 million for 2009.

11. Status report from the moderator of the pension fund board

The pension fund is an independent legal entity, regulated by the Swiss authorities. It offers retirement benefits to staff of the council and of certain related organizations. The board is composed of four representatives elected by the employees and four representatives of the employer appointed by the general secretary. One of the employer representative positions is currently vacant.

Following losses on investments of CHF 18 million in 2008 the pension fund recorded a lack of coverage of obligations of 20%. Following consultation with the actuaries the pension fund board has taken a number of remedial measures to correct this situation, including the withdrawal of favourable measures for early retirement and the implementation of remedial contributions from both the employees and the employers.

Despite the measures taken, the actuary has assessed that there is little likelihood of the fund regaining financial equilibrium within the next seven years unless there are unusually favourable investment results.

Reasons for the difficulty in regaining equilibrium include firstly the fact that the “acquired rights” of members are protected in law; remedial measures cannot reduce the rights due to members earned up to present, but only in relation to the future. Secondly, the fact that the fund is “mature”, with the number of retirees equal to the number of active members, has an impact on what measures can be taken to improve stability. At 31 December 2008, the actuary emphasizes that almost 70% of the obligations of the fund concern reserves and provisions to meet the pension payments for retired members. Remedial measures have been focused on reducing the level of increase of provisions for active members, and not for retired members. Nevertheless, pensions in payment have not been adjusted for cost of living increases for the past nine years.

The finance committee **recommends** that central committee require that:

- The general secretary be instructed to consult with the officers and the moderator of the finance committee in the event that the pension fund board makes a request for an extraordinary contribution to the pension fund;

- The general secretary inform the pension fund board as soon as possible of planned changes in staff numbers with impact on pension fund membership, in order that any likelihood of changes with legal impact for the pension fund be identified in advance; and
- Given severe concern for the on-going status of the pension fund, the moderator of the finance committee or his delegate meet once again with the pension fund board, reporting on developments in the financial situation to the executive committee in February 2010.

12. Outstanding issues from prior meetings of the finance committee and finance sub-committee

The moderator highlighted a number of issues that remain as yet unresolved. Of these issues the following were not included in the agenda of this meeting.

- a) Implementation of a cost model to give an equitable calculation of charges for use of office space by related organizations;
- b) Target dates for the resolution of contractual issues identified in a study of services to related organizations;
- c) Review in 2009 of the status of the financial relationship between Ecumenical News International (ENI) and WCC;
- d) Status on the revision of the Staff rules and Regulations which has been referred to the nominations committee; and
- e) Review of the ethical guidelines governing investments.

Work is in progress on most of these issues and a report on actions taken will be made to the finance sub-committee in February 2010.

APPENDIX 1**Comments of the finance committee to the nominations committee on review of GEN 10**

The finance committee considered the recommendations in GEN10, in particular with regard to the audit committee, and raises the following observations for consideration by the nominations committee.

Extension of the mandate of the audit committee

The current audit committee mandate is as presented in Annex 4 of the document GEN10. The finance committee supports the extension of the audit committee mandate to include risk assessments, and the management of internal audit mandates if required. In addition, it is considered, as outlined in the newly approved anti-fraud and corruption policy, that the audit committee is an appropriate point of contact for a staff member to raise a concern about management override of controls.

The finance committee recommend that the nominations committee consider the proposal that the audit committee be required to redraft its mandate to include these revisions, and that the revised mandate be presented at the next executive committee.

Membership and reporting line of the audit committee

The finance committee supports in principle the extension of the membership of the audit committee to include a second or third member of executive committee, in addition to the current representation of one executive committee member only. However, until the tasks of executive committee and other governing bodies are further clarified, the finance committee does not recommend immediate decision to change the current reporting line of the audit committee.

Recently approved policies meeting recommendations made by GEN10

The executive committee has approved in its meeting of 24-25 August 2009 the *principles of ethical business conduct* and the *anti-fraud and corruption policy*, and has required that central committee be informed of these policies, which are attached at Annex 1 and 2.

These policies meet the recommendations of the working group on governance noted at point 7.7.4, concerning a code of ethics and at Annex 5.3.f. concerning the requirement to define an avenue for reporting potential management override of controls.

ANNEX 1 to APPENDIX 1**Principles of ethical business conduct****Scope**

In the implementation of its programme work, and in the provision of administrative support services, WCC staff¹ has dealings with members of governing bodies, funding partners, government authorities, suppliers, beneficiaries, related organizations, colleagues and other third parties. The following ethical principles govern WCC's organizational practices in the conduct of those dealings.

Key concepts

As identified in the Code of Ethics for International Business for Christians, Muslims and Jews developed following a series of interfaith consultations from 1984 to 1993, "four key concepts recur in the literature of the faiths and form the basis of any human interaction." WCC's business ethics respect these four key concepts which are:

- Justice and fairness in dealings
- Mutual respect
- Stewardship
- Honesty

Principles

The principles are a set of guidelines for good practice. Personal judgment may be required in their application to practical circumstances.

a) Justice and fairness in dealings

Staff members are expected to be aware of laws and regulations and WCC policies governing their areas of responsibility, and to comply with them. Staff members are expected to seek advice when in doubt.

WCC leadership, directors and managers have a special responsibility to act with justice and fairness and through example and communication to ensure that staff under their supervision understand and comply with the principles of ethical business conduct.

Staff should avoid all conflicts of interest between work and personal life. A potential conflict of interest should be disclosed and guidance sought.

b) Mutual respect

The dignity and worth of all individuals shall be respected.

Individual initiative and innovation is encouraged in an atmosphere of co-operation and trust.

Resolution of conflict or business problems is approached collaboratively, and is managed in a manner which is respectful towards individuals.

Information of a confidential nature entrusted to staff during the course of their work will be treated with due respect and discretion.

c) Stewardship

Staff members are responsible as stewards for the careful and responsible management of resources entrusted to WCC's care. Resources are used wisely, and strictly for the intended purposes.

¹ WCC staff includes employees in Geneva and other offices, and executives appointed under consultancy contracts.

Staff will not allow personal relationships to influence recommendations or decisions concerning financial support to beneficiaries.

Business will be conducted with respect and consideration for the environment.
Staff members are accountable as stewards to report on work in a manner which allows evaluation of the effectiveness of the programmes.

Financial reporting will be reliable and timely, and appropriate documentation will demonstrate transparency in all transactions.

d) Honesty

Uncompromising honesty and integrity applies in all relationships and in all business dealings

Staff will not abuse power or information for personal gain, advantage or prestige.

Application of the principles

Guidance on the application of the principles of ethical business conduct in specific circumstances is set out in the Staff rules and Regulations and other policies.

Disciplinary measures will be taken in accordance with Staff rules and other policies.

APPENDIX 2 to APPENDIX 1**Anti-fraud and corruption policy****Introduction and general statement**

The WCC's *principles of ethical business conduct* state that:

Staff members are responsible as stewards for the careful and responsible management of resources entrusted to WCC's care. Resources are used wisely, and strictly for the intended purposes.

In ensuring compliance with the above principle, the executive committee accepts the responsibility to take actions to detect and prevent fraud and corruption in the organization.

Definition

Fraud is defined as the deliberate misuse or misapplication of the organization's resources or assets. Such willful misuse of resources may include diverting funds for personal benefit or for purposes other than for which they were entrusted to WCC.

For the purposes of this policy the definition of fraud includes corruption. Corruption is defined as the abuse of entrusted power for private gain (*Transparency International*).

Scope

This policy establishes principles to guide staff² in preventing and combating fraud in the organization and in activities in which the organization takes part.

Principles

1. WCC leadership, directors and managers create, demonstrate and maintain a culture of honesty and irreproachable behaviour.
2. WCC leadership, directors and managers implement procedures and controls to mitigate and, as far as possible, eliminate the risk of fraud. This includes continuous improvements in security over data and computer systems.
3. An assessment of the risks of fraud in the organization will be reviewed by the audit committee. An annual report on fraud risks and actions taken will be made to the finance sub-committee which will report any material matters to the executive committee.
4. Staff members are required to report any concerns they may have regarding suspected fraud to their manager, to leadership or to the audit committee in accordance with a procedure to be provided by WCC leadership. Staff members will be assured that any such reports can be made in safety and confidence.
5. WCC leadership will ensure that staff are trained to be alert to warning signs of fraud
6. WCC leadership will ensure that formal agreements with WCC's partners in the implementation of its activities include the partner's undertaking to work actively to resist, prevent and detect all forms of fraud.

² WCC staff includes employees in Geneva and other offices, and executives appointed under consultancy contracts.

7. WCC leadership will inform executive committee if it has reason to believe that there may be any fraudulent misuse of funds. In accordance with its *Framework Agreements for Ecumenical Partnership (FAEP)* WCC leadership will also inform the funding partner of “any use of funds which would undermine the spirit of mutual accountability” underlying the FAEP.
8. In any case of fraud, disciplinary measures will be taken in accordance with staff rules and other policies.