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منظمة
الغذية والزراعة
للأمم المتحدة

FINANCE COMMITTEE

Hundred and Sixty-fourth Session

Rome, 7 - 11 November 2016

Terms of Reference of the FAO Audit Committee

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EXECUTIVE SUMMARY

- A revised version of the proposed update of the Terms of Reference (ToR) of the FAO Audit Committee has been prepared for endorsement by the Finance Committee. The changes are proposed in order to address the decision by FAO Governing Bodies to merge the former Ethics Committee with the Audit Committee (Committee on Constitutional and Legal Matters, doc. CL 154/2 paras 5-7, Finance Committee doc. CL 154/4 para 39, Council doc. CL 154/REP para 16 g).
- The proposed revision reflects the following changes:
 - a) Entrust the Audit Committee with the mandate previously held by the Ethics Committee.
 - b) Reinforce the Audit Committee's role in coordinating the work of the different oversight functions, Office of the Inspector General (OIG), Evaluation, External Auditor and Ethics.
 - c) Establish the Audit Committee's consultative role in the selection and dismissal of the Inspector General in line with best practices identified by the Joint Inspection Unit.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Director-General seeks the Finance Committee's endorsement of the revised update of the Audit Committee's Terms of Reference.

Draft Advice

- **The Committee concurred with the proposed update of the FAO Audit Committee's Terms of Reference, as revised to, mainly, incorporate the prior role of FAO's Ethics Committee.**

Introduction

1. FAO's Ethics Committee was established on a trial basis and its mandate ended on 31 December 2015. FAO Governing Bodies considered it advisable to merge the functions of the former Ethics Committee with those of the Audit Committee (Committee on Constitutional and Legal Matters, doc. CL 154/2, paras 5-7, Finance Committee, doc. CL 154/4 para 39, Council, doc. CL 154/REP para 16 g):

“the Ethics Committee had fulfilled its mission and there was no justification for its continued operation nor for extending its mandate, and that matters addressed by the Ethics Committee could be within the purview of the Audit Committee”

2. The FAO Audit Committee's Terms of Reference (ToR) are promulgated as Appendix C of Manual Section 146 - Internal Committees or Activities. The current proposed changes mainly reflect the need to incorporate the prior role of the Ethics Committee in the Audit Committee's ToR.

3. The proposed revision reflects the following changes:

- a) Entrust the Audit Committee with the mandate previously held by the Ethics Committee;
- b) Reinforce the Audit Committee's role in coordinating the work of the different oversight functions, OIG, Evaluation, External Auditor and Ethics; and
- c) Establish the Audit Committee's consultative role in the selection and dismissal of the Inspector General in line with best practices identified by the Joint Inspection Unit.

4. The two latter changes are proposed following the Joint Inspection Unit's (JIU) report on the internal audit function in the UN system, which identified good practices for audit committees. The changes proposed in this document will align the FAO Audit Committee's ToR with those identified as best practices.

Proposed Revisions

5. The proposed revisions to the ToR attached comprise the following:

- Expand the Audit Committee's current mandate to incorporate the mandate previously held by the Ethics Committee (changes of paragraphs 1.1, 1.3, 2.1.e, 3.1, 4.3, 6.1, 6.8, 6.11);
- Increase coordination of oversight functions ensured by AC scrutiny (paragraph 2.1.f) and revision of major policies and documents related to oversight (paragraph 2.1.d viii and 2.1.e); and
- Define the role of the Audit Committee in the selection and dismissal of the Inspector General (paragraph 2.1.d ix).

6. The full specific text changes proposed to the ToR (as modified by the above revisions) including the rationale for these changes, are shown in the annex to this document.

PROPOSED CHANGES TO THE FAO AUDIT COMMITTEE TERMS OF REFERENCE, WITH FURTHER REVISIONS BASED ON GUIDANCE FROM THE 146TH SESSION OF THE FINANCE COMMITTEE

CURRENT TERMS OF REFERENCE	PROPOSED TERMS OF REFERENCE <i>Changes from current text are in italics and bold</i>	COMMENTARY
<p>1. <u>Purpose</u></p> <p>1.1 The Audit Committee serves as an expert advisory panel to assist the Director-General on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection and investigation functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.</p>	<p>1. <u>Purpose</u></p> <p>1.1 The Audit Committee serves as an expert advisory panel to assist the Director-General on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection, investigation and ethics functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.</p>	<p>The change is proposed to reflect the Committee's role vis-a-vis the ethics function, following the discontinuation of the Ethics Committee, as approved by the Governing Bodies.</p>
<p>1.2 The Audit Committee provides information to the Governing Bodies in these areas, through its annual reports being made available, and the Chair or other designated member presenting on this report directly, to the Finance Committee.</p>	<p>1.2 The Audit Committee provides information to the Governing Bodies in these areas, through its annual reports being made available, and the Chairperson or other designated member presenting on this report directly, to the Finance Committee.</p>	<p>References to Chair replaced with Chairperson for consistency.</p>
<p>1.3 With regard to internal audit, inspection and investigation, the Committee operates in an advisory capacity to the Office of the Inspector General (OIG). As such it assists the Inspector General with regard to ongoing quality of performance of the Office.</p>	<p>1.3 With regard to internal audit, inspection, investigation, and ethics, the Committee operates in an advisory capacity to the Office of the Inspector General (OIG) and the Ombudsman/Ethics Office (EO) respectively. As such it assists the Inspector General and the Ombudsman/ Ethics Officer with</p>	<p>The change is proposed to reflect the Audit Committee's new role in relation to ethics.</p>

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	regard to ongoing quality of performance of these functions.	
<p>2. <u>Responsibilities</u></p> <p>2.1 The Committee reviews and advises the Director-General on:</p> <p>a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:</p> <ul style="list-style-type: none"> (i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor; (ii) the arrangements for the external audit of the Organization and their implementation; (iii) the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting. <p>b) the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the organization, including consideration of:</p>	<p>2. <u>Responsibilities</u></p> <p>2.1 The Committee reviews and advises the Director-General on:</p> <p>a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:</p> <ul style="list-style-type: none"> (i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor; (ii) the arrangements for the external audit of the Organization and their implementation; (iii) the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting. <p>b) the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the Organization, including consideration of:</p>	<p>The new items proposed under 2.1. reflect the Audit Committee's new role in relation to ethics and were taken from the Ethics Committee ToRs.</p> <p>The additions proposed under 2.1. are to emphasize the Audit Committee's role vis-a-vis the External Auditor, its coordination function with the Evaluation function and the role the Committee should assume in i) the Charter revision and ii) the appointment, dismissal and non-renewal of the IG. This would align the Audit Committee's terms of reference the with best practices described in the Joint Inspection Unit's (JIU) report on the internal audit function in the UN system – A 408.</p>

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<p>(i) the Organization’s improvement projects concerning internal controls and risk management;</p> <p>(ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits.</p> <p>c) the Organization’s policies to combat fraudulent, corrupt and collusive practices for its employees and external parties, including improper use of the Organizations resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.</p> <p>d) the effectiveness and efficiency of OIG’s internal audit, inspection and investigation functions, and adherence to the Charter of the Office of the Inspector General, the Guidelines on Internal Administrative Investigations and to applicable international internal auditing and investigation standards, including consideration of:</p> <p>(i) the independent role of the Inspector General and his/her Office;</p> <p>(ii) the sufficiency of resources available for OIG to meet the Organization’s needs;</p>	<p>(i) the Organization’s improvement projects concerning internal controls and risk management;</p> <p>(ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits.</p> <p>c) the Organization’s policies to combat fraudulent, corrupt and collusive practices of its employees and external parties, including improper use of the Organization’s resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.</p> <p>d) the effectiveness and efficiency of OIG’s internal audit, inspection and investigation functions, and adherence to the Charter of the Office of the Inspector General, the Guidelines on Internal Administrative Investigations and to applicable international internal auditing and investigation standards, including consideration of:</p> <p>(i) the independent role of the Inspector General and his/her Office;</p> <p>(ii) the sufficiency of resources available for OIG to meet the Organization’s needs;</p>	

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<p>(iii) OIG’s quality assurance mechanisms and results of internal and external quality assurance reviews;</p> <p>(iv) the adequacy of planned and actual internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed by OIG on high-risk areas;</p> <p>(v) audit reports issued by OIG and the status of implementation by the Organization of the recommendations;</p> <p>(vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings;</p> <p>(vii) OIG’s quarterly and annual reports.</p>	<p>(iii) OIG’s quality assurance mechanisms and results of internal and external quality assurance reviews;</p> <p>(iv) the adequacy of planned and actual internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed by OIG on high-risk areas <i>in coordination with the External Auditor;</i></p> <p>(v) audit reports issued by OIG and the status of implementation of the recommendations by the Organization;</p> <p>(vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions taken by the Organization on the findings;</p> <p>(vii) OIG’s quarterly and annual reports;</p> <p><i>(viii) changes to the OIG charter and operational manuals required to maintain alignment with Organizational and professional practices;</i></p> <p><i>(ix) proposals of the Organization to recruit, terminate or non-renew an Inspector General.</i></p> <p><i>e) All matters pertaining to the formulation, development and implementation of the Organization’s ethics programme, including:</i></p>	

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	<p><i>(i) the ethics activities of the Ombudsman/Ethics Officer on the basis of annual reports referred to the Committee by the Ombudsman and Ethics Office;</i></p> <p><i>(ii) the main individual components of the ethics programme, including any relevant policies, regulations and rules, and training;</i></p> <p><i>(iii) the Organization's financial disclosure programme or programmes aimed at preventing or addressing conflict of interest;</i></p> <p><i>(iv) the adequacy of resources to effectively carry out its ethics responsibilities.</i></p> <p><i>f) Coordination of oversight activities between internal and external audit, and, the evaluation function with respect to identifying and working on common areas of focus, specifically during the work planning process.</i></p>	
2.2 The Committee establishes an annual plan to ensure the Committee's responsibilities and stated objectives for the period are effectively addressed.		
2.3 Submits an annual report on its activities for the Director-General who subsequently provides the FAO Finance Committee with a copy, together with any additional comments that the Director-General wishes to make on it.		

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<p>3. <u>Authority</u></p> <p>3.1 The Audit Committee has the authority to:</p> <p>a) obtain all necessary information and consult directly with the Inspector General and his/her staff;</p> <p>b) access all reports and working papers produced by OIG;</p> <p>c) seek any information from any staff member and require all staff to cooperate with any request made by the Audit Committee;</p> <p>d) obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary.</p>	<p>3. <u>Authority</u></p> <p>3.1 The Audit Committee has the authority to:</p> <p>a) obtain all necessary information and consult directly with the Inspector General and the Ombudsman/Ethics Officer and their staff;</p>	<p>The change is proposed to reflect the Audit Committee’s new role in relation to ethics.</p>
<p>4. <u>Membership</u></p> <p>4.1 The Committee consists of five external members and a Secretary <i>ex-officio</i>. All members and the Secretary are appointed by the Director-General.</p>		
<p>4.2 The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.</p>		
<p>4.3 Members are selected on the basis of their qualifications as senior audit and/or investigation</p>	<p>4.3 Members are selected on the basis of their qualification and relevant experience at senior</p>	<p>The clarification is proposed to specify the profile of Audit Committee members and to reflect the</p>

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professionals. Due regard is paid in their selection to gender and geographic representation in the Committee.	<i>level in the areas of: financial management, governance, risk and controls and oversight including audit, investigation and ethics.</i> Due regard is paid in their selection to gender and geographic representation of the Committee.	responsibility and requirement of having members with this experience.
4.4 Members are independent of the FAO Secretariat and the Director-General. Former members of the FAO Secretariat are not appointed to the Audit Committee within a period of two years following the end of those responsibilities.		
4.5 Members serve in their personal capacity and cannot be represented by alternate attendees.		
4.6 The Committee elects its own Chairperson from within their number.	4.6 The Committee elects its own Chairperson from within their number <i>its members</i> .	The change is proposed to correct a typographical error.
4.7 Members serve for a three-year period, which may be renewed for a maximum of three further years after the initial term, at the discretion of the Director-General. Members' terms of office are phased as much as possible so as to provide continuity. Renewal is subject to a positive assessment of the member's contribution during his or her first term.		
5. <u>Secretariat</u>		

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<p>5.1 The Secretary of the Audit Committee is the Inspector General <i>ex officio</i>, who shall report directly to the Chairperson on matters relating to the work of the Audit Committee. OIG provides Secretariat staff support.</p>		
<p>6. <u>Meetings</u></p> <p>6.1 At the discretion of the Chairperson, the Committee meets at least three times a year. Additional meetings may be called by the Chairperson if deemed appropriate. The Director-General, Inspector General or External Auditor may request the Chairperson to call additional meetings if necessary.</p>	<p>6. <u>Meetings</u></p> <p>6.1 At the discretion of the Chairperson, the Committee meets at least three times a year. Additional meetings may be called by the Chairperson if deemed appropriate. The Director-General, Inspector General, <i>Ombudsman/Ethics Officer</i> or External Auditor may request the Chairperson to call additional meetings if necessary.</p>	<p>The change is proposed to reflect the Audit Committee’s new role in relation to ethics.</p>
<p>6.2 The members of the Audit Committee are normally given at least ten working days’ notice of meetings.</p>		
<p>6.3 The Chairperson approves a provisional agenda for the meetings that should be circulated together with the invitations.</p>		
<p>6.4 Supporting documents are prepared by the Chairperson or by the Audit Committee Secretariat on the instruction of the Chairperson or on the Secretary’s initiative. Documents may also be</p>		

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submitted by the External Auditor or, with the approval of the Chairperson, by Management or other committees of the Organization. The documents and informational material circulated for the consideration of the Audit Committee are used solely for that purpose and treated as confidential.		
6.5 The presence of all five members is expected at each meeting but meetings can take place with a quorum of three members. The Secretary to the meeting has no voting rights. The Audit Committee's decisions are usually taken by consensus but if this is not the case by the majority of the members present and voting. Should the votes be equally divided, the Chairperson has the casting vote.		
6.6 The Chairperson or other Members may participate in a meeting by telephone or video conference link, during which time they are counted, the purpose of establishing a quorum.		
6.7 If the Chairperson is unable to attend a meeting, the other Members elect an Acting Chair for that meeting from among the members present.		
6.8 The Chairperson may invite OIG or other FAO staff, or the external auditor, to attend meetings.	6.8 The Chairperson may invite OIG, <i>the EO</i> or other FAO staff, or the external auditor, to attend meetings.	The change is proposed to reflect the Audit Committee's new role in relation to ethics.

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<p>6.9 The Audit Committee may decide to meet in closed session from time to time as determined by the Committee, or in private sessions with the Secretary, with management representatives or the representative of the external auditor.</p>		
<p>6.10 Minutes of meetings are prepared and kept by the Secretariat. The Audit Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.</p>		
<p>6.11 The deliberations of the Audit Committee and the minutes of its meetings are shared with the Director-General, the Cabinet and with OIG staff, but are otherwise confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with other FAO senior managers, or request the Secretariat to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.</p>	<p>6.11 The deliberations of the Audit Committee and the minutes of its meetings are shared with the Director-General, the Cabinet, <i>the EO</i> and with OIG staff, but are otherwise confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with other FAO senior managers, or request the Secretariat to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.</p>	<p>The change is proposed to reflect the Audit Committee’s new role in relation to ethics.</p>
<p>7. <u>Conflicts of Interest</u></p> <p>7.1 Prior to their appointment, new members complete a conflicts of interest declaration. Where an actual or potential conflict of interest arises, the</p>		

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interest is to be declared and results in the member/s being excused from the discussion or abstaining from voting on the matter. In such event, a quorum is required from the remaining members for the consideration of this matter.		
8. <u>Responsibilities and Liabilities of Members</u> 8.1 Members act in an independent, non-executive capacity while performing their advisory role on the Audit Committee. As such, members are not to be held personally liable for decisions taken by the Audit Committee acting as a whole.		
8.2 Audit Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Audit Committee, so long as such activities were performed in good faith.		
9. <u>Reporting</u> 9.1 The Committee reports to the Director-General and all reports of the Committee are addressed to him or her. The Audit Committee prepares an annual report on its work for the Director-General, which is presented to the Finance Committee each year along with any comments of the Director-General. The report includes an annual self-evaluation of the Committee's work. The Chairperson of the Audit	9. <u>Reporting</u> 9.1 The Committee reports to the Director-General and all reports of the Committee are addressed to him or her. The Audit Committee prepares an annual report on its work for the Director-General, which is presented to the Finance Committee each year along with any comments of the Director-General. The report includes an annual self- assessment evaluation of the Committee's work.	Replacing evaluation by assessment is in line with common practice. In addition, evaluation has a very specific meaning in oversight and should be used in its right sense, which was not the case here.

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<p>Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.</p>	<p>The Chairperson of the Audit Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.</p>	
<p>9.2 The Chairperson communicates with the Director-General's designated focal point on the results of the Committee's deliberations as well as on forthcoming issues relevant to its business.</p>		
<p>10. <u>Remuneration and Reimbursement of Costs</u></p> <p>10.1 Members are not remunerated by FAO for activities undertaken with respect to their membership of the Audit Committee. FAO reimburses Committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.</p>		
<p>11. <u>Periodic Review of the Terms of Reference</u></p> <p>11.1 The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.</p>	<p>11. <u>Periodic Review of the Terms of Reference</u></p> <p>11.1 The Committee periodically, <i>and at least every three years</i>, reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.</p>	<p>Periodical review of terms of reference for the Audit Committee is a recommended best practice (JIU report on the internal audit function in the UN system – A 408).</p>