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# FINANCE COMMITTEE

**Hundred and Sixty-first Session**

**Rome, 16 - 20 May 2016**

**2015 Annual Report of the Audit Committee to the Director-General**

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### EXECUTIVE SUMMARY

- The Director-General is pleased to provide the Finance Committee with the FAO Audit Committee's 2015 Annual Report to the Director-General, together with the Director-General's comments, as foreseen in the Audit Committee's Terms of Reference (MS 146 – App. C). The Terms of Reference also require that the Committee's Chairperson or another member, as decided by the Committee, will be invited to present the Annual Report to the Finance Committee.
- The report: concludes positively on the operation of the Office of the Inspector-General (OIG) and its coordination with other oversight functions; and summarizes the Committee's advice regarding internal control, risk management and governance based on its deliberations during the year.
- The Audit Committee has accepted two recommendations from its 2013 and 2014 annual reports as implemented, and two others as action in progress. Additional recommendations are made in the 2015 report, relating to more training/orientation to staff on controlling fraud, on ethical behaviour and accountability and for managers on handling workplace and administrative conflicts with personnel; dissemination of the accountability policy and internal control framework to all FAO personnel; completing a top down assessment of the corporate risks to complement work completed earlier and timely adoption of a first edition of the corporate risk log; conduct a lessons learning exercise from vendor sanctions cases to date in terms of controls; complete pending internal steps to complete an update of the Guidelines on Internal Administrative Investigations and expeditious filling of OIG vacancies. In line with the Finance Committee's request at its 156th session to set implementation deadlines within 12 months, the deadlines for new recommendations are December 2016.

#### *Director-General's Comments*

- The Director-General appreciates the advice provided by the Audit Committee both in the annual report but also in the course of its meetings during the year, in the areas of its mandate. Management's status report on open Audit Committee recommendations in its 2014 report are contained in Annex 3. With respect to the particular recommendations in the 2015 Annual Report, the Director-General agrees with the recommendations and has requested Management and OIG to give full attention in the coming months to their implementation.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2015.

#### Draft Advice

- **The Finance Committee took note of the FAO Audit Committee's Annual Report for 2015 and;**
- **acknowledged the important role of the FAO Audit Committee in providing independent assurance and advice in the mandated areas under its Terms of Reference;**
- **welcomed the report, which included positive conclusions on the operation of the Office of the Inspector-General and relevant advice in relation to FAO's system of internal control, risk management and governance;**

- 
- **expressed satisfaction with the FAO Audit Committee's advice, in the areas under its mandate;**
  - **welcomed the Director-General's concurrence with the recommendations presented in the report.**

## I. INTRODUCTION

1. As an independent advisory expert body, the FAO Audit Committee (AC) assists the Director-General (DG) in fulfilling his oversight and governance responsibilities. The Committee helps ensure that the Director-General receives independent and objective assurance on the effectiveness of the internal audit, inspection and investigation functions, and provides advice on the system of internal control, risk management and governance. It accomplishes this, amongst others, by considering the work of the Office of the Inspector General (OIG), the other FAO oversight functions (Evaluation and External Audit) and management action on audit recommendations and investigation reports.
2. The composition of the Committee during 2015 is provided in Annex 1.
3. According to the Committee's Terms of Reference (Annex 2), the Director-General is to provide a copy of the Committee's annual report to the Finance Committee, together with his/her comments thereon, if any.
4. This Thirteenth Annual Report of the Committee provides an overview of the Committee's discussions and recommendations during 2015. The Committee met three times in 2015.

## II. FUNCTIONING OF THE COMMITTEE

5. During the reporting period, the Committee convened in April, July and December 2015 at FAO headquarters, meeting over a two-day period each time. Full membership of the Committee was maintained throughout the year, although the Chair, Ms Dittmeier, advanced the completion of her term to the end of 2015 due to other emerging heavy commitments. Ms Lesetedi was elected at the December 2015 meeting to succeed her as Chair from 2016.
6. The Committee records its appreciation of the effective secretariat services provided by OIG during the year, in support of the scheduled meetings as well as between sessions.
7. The Committee is pleased to report continuing good engagement with the External Auditor. The Committee was briefed on the external audit plans, audit progress and results, in person or via reports, at its April and December 2015 meetings.
8. To help inform its work, the Committee has received regular updates on Organizational developments and management perspectives from the Deputy Director-General (DDG) Operations or his alternate, and other members of Senior Management, at each meeting. Unfortunately, due to other commitments at the time of the Committee meetings, the Director-General (DG) was unable to meet with the Committee. However it is still the Committee's wish to meet with the DG hence it will continue pursuing the matter.
9. The Committee regularly reviewed its functions and completed a structured self-assessment at its December 2015 meeting. While identifying some areas for further attention by the Committee, it concluded that it has discharged its duties in accordance with its current Terms of Reference. The Committee reviewed recommendations from OIG's late 2015 internal audit quality assurance review concerning the Committee's Terms of Reference and will make specific proposals in 2016, for FAO management consideration where there is need for improvement or change, including, with regard to its involvement in the recruitment, evaluation and any proposed termination of the Inspector General, and to clarify its role in support of the Director-General and the Finance Committee in relation to FAO's external audit.

### III. KEY MESSAGES AND CONCLUSIONS FROM THE COMMITTEE'S 2015 WORK

10. The key messages and conclusions of the Committee's work during 2015 are summarized below, and elaborated in later sections of this report organized according to the four broad areas established in its Terms of Reference:

- The Committee welcomed OIG's development of a new escalation policy, to promote increased attention by management to long outstanding audit recommendation/agreed actions, and recommends its early implementation in 2016.
- Taking into account internal and external audit and investigation results, the Committee further recommends that the Organization give consideration to more training/orientation to staff on mitigating fraud, improving ethical behaviour and accountability as well as for managers efficient handling of workplace and administrative staff conflicts.
- The Committee has encouraged management to communicate the accountability policy more widely within the Organization following its endorsement by the Corporate Programme Monitoring Board. The Committee has not yet reviewed a proposed Internal Control Framework, but recommends that its finalization in 2016 be used as an opportunity to disseminate both accountability and internal control policies to all FAO personnel.
- The Committee emphasises the importance of FAO management completing a top down assessment of corporate risks to complement work completed earlier, and the timely adoption of a first edition of the corporate risk log foreseen under FAO's enterprise risk management policy. This will support the transition by OIG to drawing on the corporate assessment of risk as the basis for its risk-based audit planning.
- FAO's vendor sanctions guidelines were fully operational throughout 2015. The Committee expects that in 2016 a critical mass in the number of vendor sanctions cases will be reached and accordingly recommends that management and OIG conduct a lessons learnt exercise in terms of controls. Dissemination of the Annual Report by the Vendor Sanctions Committee would be an effective way to communicate its decisions and ensure deterrence.
- An update of the Guidelines on Internal Administrative Investigations has been prepared, which will close the pending recommendations from the 2013 external review of OIG's investigation functions, but the internal review process prior to promulgation is pending. The Committee is concerned that the absence of promulgated procedures expose additional risks for the Organization and strongly recommends that management complete the pending steps as soon as possible.
- A Joint Inspection Unit (JIU) recommendation for UN organizations to adopt a policy governing the handling of allegations against the executive head remains pending. The Committee encourages FAO to adopt a policy in 2016, with reference to guidance being developed by the UN Investigation Network. The guidance as developed so far is based on the UN Chief Executives' Board response to the JIU recommendation.
- OIG had continuing vacancies throughout 2015. In some cases extended recruitment periods were followed by withdrawals of selected candidates, requiring further delays including re-advertisement. With carry over vacancies in professional posts and further vacancies expected in the first half of 2016, the Committee recommends that management ensure OIG vacancies are expeditiously filled. The Committee will continue to monitor this in 2016.
- With regard to the Organization's After Service Medical Coverage liabilities, the Committee noted that full funding of the liability remains an open issue, but that management is regularly engaging with the Finance Committee on this matter. While appreciating that a solution must be UN-wide, the Committee urges the Organisation to continue work in this regard.

## **IV. ACCOUNTING AND FINANCIAL REPORTING POLICIES**

### **A. Implementation of IPSAS-Compliant Financial Statements**

11. During 2015, the Committee paid close attention to FAO's progress in the timetable of work for IPSAS implementation effective from the 2014 financial statements. The Committee received briefings at each of its meetings during the year from the Finance Director and IPSAS project leaders, as well as the Inspector General and, at its first meeting of the year, the External Auditor. Committee meetings provided an opportunity for the Organization to systematically present on milestone progress for the implementation project and on the status of actions on the identified risks and on recommendations from the oversight functions. The Committee was provided with an opportunity to review the draft 2015 financial statements and did not need to make any substantive suggestions on them. It welcomed the achievement of their finalization, in the second semester of 2015, as FAO's first IPSAS-compliant financial statements with an unqualified external audit opinion.

### **B. Treasury and Investment Functions**

12. In 2015, the Committee increased its focus on treasury and investment functions, to supplement the ongoing oversight provided by internal and external investment committees. The Committee was satisfied with the presentations made, but noting that it had been some time since any in-depth internal or external audit of the functions, encouraged OIG to accelerate the timing of its own treasury risk review and audit of investment function. These were initiated in late 2015 and will be reported in early 2016.

13. The Committee recommended that the Finance Division review its investment reporting, particularly those presented to the governing bodies, so that detailed investment performance, with related benchmarks, would be clearly shown separately from the accounting results, which are influenced by exchange rate changes. The format of present reporting under-reported the creditable investment performance that had been achieved.

### **C. Financial Health of the Organization**

14. The Committee reviewed information on various aspects relevant to the financial health of the Organization, including the status of actions on funding the Organization's After Service Medical Coverage liabilities. As indicated in its 2014 report, the Committee noted that full funding of the liability remains an open issue, but that management is regularly engaging with the Finance Committee on this matter. While appreciating that a solution must be UN-wide, the Committee urges the Organization to continue work in this regard.

## **V. INTERNAL CONTROL AND RISK MANAGEMENT**

### **A. Internal Audit Recommendations**

15. The Committee appreciated the Organization's continuing efforts to emphasize accountability for the implementation of agreed audit recommendations on actions in a timely manner to better manage the Organization's risks and opportunities. With regard to OIG internal audit recommendations, while there continues to be some year-to-year variation in overall implementation rates, the Committee notes that in aggregate management had by the end of 2015 reached a 91 percent implementation result (as compared to a 93 percent implementation target) of recommendations outstanding for more than two years. This target has been maintained by FAO for 2016-2017.

16. The Committee also considered OIG's approach to formulating recommendations, and to the setting and monitoring of implementation targets. Following the Committee's advice, OIG adjusted its processes in 2015 so that recommendations in its reports are replaced wherever possible by agreed actions, which promote greater ownership by auditees of the actions and deadlines for implementation.

Cases of disagreement may still be presented in audit reports. In parallel, the Committee encouraged OIG to strengthen its escalation policy for long outstanding agreed recommendations/actions, and endorsed a new OIG policy (finalized end 2015) that requires additional communications to senior management when agreed recommendations/actions approach, or pass into long outstanding status. These steps supplemented those already implemented by OIG in 2015 to allow for timely, direct update of its recommendation/action database by auditees ahead of its own six-monthly assessments. The Committee recommends early implementation by OIG and management of the new audit recommendation/agreed action escalation policy in 2016.

17. At the same time, some long outstanding high-risk recommendations, reconfirmed as still being relevant, have not proceeded as quickly as warranted given the nature of the risks they are mitigating. The Committee encourages management to address these and bring them to a close as soon as possible, and in general to continue efforts to reduce the time taken to close internal audit recommendations.

18. Among the important areas where past recommendations continue to be outstanding, which are further described in the OIG 2015 Annual Report, together with status information provided by FAO management, are the:

- implementation of an organization-wide business continuity management framework;
- enhancement of information technology security;
- establishment of stronger monitoring practices at headquarters for operations in field offices; and
- enhanced monitoring of infrastructure requirements and actions as regards meeting safety standards.

## **B. External Audit Recommendations**

19. In 2015, the Committee started to more systematically review external audit management letters. The Committee requested management to provide more integrated information on the External Auditor recommendations and the related management responses and actions taken. Noting that a similar request had been made by the Finance Committee, the Committee requested that OIG share with them any future status reports starting with the management responses for the 2014 long form report, to be prepared for the May 2016 Finance Committee meeting.

## **C. Accountability and Internal Control Policies**

20. The Committee welcomed management's commitments to introduce accountability and internal control policies in the 2014-15 biennium, starting with the adoption of an accountability policy at the end of 2014, to be followed by an internal control framework. The Committee also welcomes OIG's actions in 2015 to begin aligning its audit scoping criteria with the five areas of corporate performance, as set in the new accountability policy. Reporting by OIG using this structure will help to reinforce the new policy.

21. The Committee has encouraged management to communicate the accountability policy more widely within the Organization following its endorsement by the Corporate Programme Monitoring Board. The Committee has not yet reviewed a proposed Internal Control Framework, but recommends that its finalization in 2016 be used as an opportunity to disseminate both accountability and internal control policies to all FAO personnel.

22. Taking into account internal and external audit and investigation results, the Committee further recommends that the Organization give consideration to more training/orientation to staff on controlling fraud, ethical behaviour and accountability and for managers on handling workplace and administrative conflicts with personnel.

#### **D. Results-Focus**

23. Recognizing that this is a long-term effort, the Committee continues to reiterate the importance of fully institutionalizing Results-Based Management (RBM), Enterprise Risk Management (ERM) and Performance Assessment so that intended benefits of a more results-focused approach to management and accountability are obtained and maintained. It welcomed the further actions presented by management at its 2015 meetings and the positive findings of OIG's review of the new Strategic Framework's initial implementation, and endorsed the areas identified for further attention.

#### **E. Enterprise Risk Management (ERM)**

24. The Committee encourages further development of ERM within the Organization, which despite some good work in late 2015 by the Office of Strategy, Planning and Resources Management (OSP) to develop a corporate view of risk as anticipated in the ERM policy, remains at a low maturity level. The Committee stresses the importance of FAO management completing a top down assessment of corporate risks to complement work completed earlier, and the timely adoption of a first edition of the corporate risk log foreseen under FAO's ERM policy. This will support the transition by OIG to drawing on the corporate assessment of risk as the basis for its risk-based audit planning.

### **VI. THE ORGANIZATION'S POLICIES AND ACTIONS TO COMBAT FRAUDULENT, CORRUPT AND COLLUSIVE PRACTICES**

#### **A. Vendor Sanctioning**

25. The Committee is pleased to note that FAO's vendor sanctions guidelines were fully operational throughout 2015 with an active vendor sanctioning committee and a secretary of the committee. The first cases for review by the sanctioning committee, following completion of investigations, were presented by OIG and responded to by the sanctioning committee in accordance with the guidelines. This progress puts FAO in a strong position to effectively respond to developments being promoted on UN System-wide information sharing on third parties which are found to have engaged in fraud or other corrupt practices. The Committee expects that in 2016 a critical mass in the number of vendor sanctions cases will be reached and accordingly recommends that management and OIG conduct a lessons learnt exercise in terms of controls. Dissemination of the Vendor Sanctions Committee's Annual Report would be an effective way to communicate its decisions and ensure deterrence.

#### **B. Update of FAO's Anti-Fraud Policy**

26. The Committee welcomed the update in 2015 of FAO's Policy on Fraud and the Improper Use of the Organization's Resources, to which it had provided advice in the previous year. The changes bring the policy up to date with developments in the Organization's integrity framework since the policy was last revised in 2004 and has resulted in the adoption of consistent definitions of fraud and other corrupt practices by personnel and third parties, using the definitions in common use across the UN System and other inter-governmental organizations.

#### **C. Whistleblower Protection**

27. The Committee is pleased to note that during 2015 the Organization's actions under its Whistleblower Protection Policy were effective. The Committee believes confidence that allegations will be treated properly and complainants protected against retaliation is essential for the policy to be meaningful. The majority of allegations of misconduct that come to OIG continue to be from FAO personnel, and in the very few instances (three in 2015) where the complainant raised concerns of retaliation, the Organization responded appropriately and promptly.

## **D. Somalia Programme**

28. The Committee was briefed by OIG on the results of its work in 2015 to support FAO's programme in Somalia. The Committee noted that OIG continued to substantially dedicate the equivalent of one investigator to review allegations and operational indicators of possible agricultural input or cash diversion. As the Committee noted in its recent, prior annual reports, in certain parts of Somalia there may be a limit as to how effectively the risks can be managed and, accordingly, to how effective investigations and audits can be in supporting management to mitigate the risks. The Committee reiterates its appreciation that management is keeping the acceptability of the risk under continuous review, and continues to regularly update and brief donors on this.

## **VII. EFFECTIVENESS OF OIG FUNCTIONS**

29. An important part of the Committee's mandate is to provide independent and objective assurance on the effectiveness of the internal audit, inspection and investigation functions. Based on the information provided by OIG, follow up of the results of past external assessments of audit and investigation functions, the positive results of OIG's recent internal quality assessment review of the internal audit function, and the briefings provided by FAO management and the External Auditor, the Committee considers that OIG is delivering its services adequately and effectively, including implementing a process of continuing improvement.

### **A. Risk-Based Audit Assurance**

30. The Committee had assessed OIG's risk-based planning methodology in its 2014 review of the Risk-Based Audit Plan for the 2014-2015 biennium. The risk-based approach helps ensure that OIG's assurance and advice are focused on important areas of the Organization on a systematic basis, and the Committee found this to be evidenced by the topics reported on by OIG during the year. The Committee noted that by the end of 2015, OIG had achieved a substantial part of its planned biennial audit coverage as indicated in OIG's 2015 annual report, notwithstanding auditor vacancies during the year and with some reporting carrying over into 2016. The Committee appreciated the collaborative efforts of OIG and External Audit and Evaluation in 2015 to promote synergy and cost-effective assurance coverage.

### **B. Investigative Functions**

31. The Committee welcomed the finalization of an update of FAO's anti-fraud policy in early 2015 and OIG's incorporation of the Committee's suggestions concerning the update of the Guidelines on Internal Administrative Investigations. Adoption of updated Guidelines will close the pending recommendations from the 2013 external review of OIG's investigation functions. The updated Guidelines have not yet been issued as the internal review process prior to promulgation is pending. The Committee is concerned that the absence of promulgated procedures expose additional risks for the Organization. It therefore strongly recommends that management give priority to complete the necessary internal reviews and promulgate the update as soon as possible. The Committee also appreciates the efforts made in 2015 by the Investigation Unit to manage its caseload and respond to the need for policy inputs despite investigator vacancies.

32. The proposed update to the Guidelines includes additional text recommended by the Committee to address allegations made against OIG staff or the Inspector General. The JIU had also recommended some years ago that UN organizations put in place a policy for handling allegations against the executive head. Such a policy is best developed with care when there is no immediate need to implement one. The Investigation Network of UN organizations (UNRIS) has been developing guidance on this, drawing on the response to the JIU recommendation by the UN Chief Executives' Board. The Committee hopes this guidance will become available in 2016 and encourages FAO to thereafter develop a policy for adoption by the governing bodies.

### **C. OIG Report Disclosure**

33. In April 2011, the FAO Council approved an OIG disclosure policy that makes internal audit reports and reports of lessons learned from investigations available to Permanent Representatives or their designates, for viewing in OIG's premises. The policy was extended in 2013 to provide for viewing reports via a secure internet connection, and this has been the requested method in all cases since then. The Committee welcomed OIG's smooth implementation of the policy, with all requests met as required in the policy well within the stipulated periods. There were no instances in 2015 of reports being withheld and only one instance where the report was redacted to omit confidential third party comparator information. The Committee was satisfied with the reason for the redaction provided by the Inspector General

### **D. OIG Staffing and Budget**

34. The Committee noted that OIG had been proactive in managing its budget, through the use of consultancies to backfill vacancies and provide additional technical expertise, to ensure audit coverage and investigative caseload requirements were met despite staff vacancies. OIG finished the year with a minor projected surplus and no budgetary concerns were brought to the attention of the Committee during the year.

35. At the end of 2015, OIG had two vacancies (one P4, one P3) in its region-based auditor posts, two vacancies (one P3, one P2) in its headquarters-based auditor posts; and two P3 Investigator posts. Two of these posts were filled and staff came on board in early 2016. Recruitment action was in progress for three other posts. The other (investigator) post was being filled on a long-term secondment which was contributing to FAO internal mobility and the Committee was advised by OIG that it will seek to recruit against this post later in 2016 after a further review of the job profile. In some cases, extended recruitment periods were followed by withdrawals of selected candidates, requiring further delays including re-advertisement. With carry over vacancies in professional posts and further vacancies in audit and executive support posts imminent in the first half of 2016, the Committee recommended that management ensure OIG vacancies are expeditiously filled. The Committee will continue to monitor this in 2016.

## **VIII. STATUS OF PRIOR YEAR RECOMMENDATIONS**

36. The Committee reviewed the implementation status of the four open recommendations in its prior annual report, taking into account management's and OIG's further updates provided to the Committee. As indicated in Annex 3, the Committee considers two recommendations as implemented on the basis that actions are now taking place and the other recommendations as being in progress, which will continue to be monitored by the Committee during 2016.

## **IX. ACKNOWLEDGEMENT**

37. The Committee acknowledges the good cooperation and assistance received from management, from the Inspector General and his staff, other FAO staff and the External Auditor who provided information briefings during its 2015 meetings.

**Annex 1****COMPOSITION OF THE COMMITTEE**

- 1) Following a recommendation of the former External Auditor and in accordance with FAO's commitment to the 100th Session of the Finance Committee, the Director-General established the FAO Audit Committee in April 2003. From inception until the end of 2007, the Committee had a combination of internal and external members. In January 2008, its membership became entirely external. The Committee's composition and terms of reference are set out in Manual Section 146 App. C.
- 2) In accordance with the Immediate Plan of Action (IPA) for FAO Renewal (2009-11), adopted by the Conference at its 35th (Special) Session, "the Audit Committee (a) will be appointed by the Director-General and have a membership which is fully external agreed by the Council on the recommendation of the Director-General and Finance Committee" (IPA action 2.92). The first appointment under this system was made in 2010 and the 2013 update of the Committee's terms of reference reflect this.
- 3) The Committee's 2015 composition was as follows:

Members : Ms C Dittmeier (Chair)  
Ms L. Lesetedi  
Mr. J. M. Portal  
Ms E. Quinones  
Mr V. Liengsriwat

Secretary (ex-officio) Inspector General

**Annex 2**APPENDIX CFAO's AUDIT COMMITTEETERMS OF REFERENCE**I. Purpose**

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.
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.
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.

**II. Responsibilities**

4. The Committee reviews and advises the Director-General on:
  - policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:
    - 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;
    - the arrangements for the external audit of the Organization and their implementation;
    - the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting.
  - the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the organization, including consideration of:
    - the Organization's improvement projects concerning internal controls and risk management;
    - the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits.
  - 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.
  - 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:
    - the independent role of the Inspector-General and his/her Office;
    - the sufficiency of resources available for OIG to meet the Organization's needs;
    - OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;

- 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;
- audit reports issued by OIG and the status of implementation by the Organization of the recommendations;
- investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings;
- OIG's quarterly and annual reports.

5. The Committee establishes an annual plan to ensure the committee's responsibilities and stated objectives for the period are effectively addressed.

6. 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.

### **III. Authority**

7. The Audit Committee has the authority to:

- obtain all necessary information and consult directly with the Inspector-General and his/her staff;
- access all reports and working papers produced by OIG;
- seek any information from any staff member and require all staff to cooperate with any request made by the Audit Committee;
- obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary.

### **IV. Membership**

8. The Committee consists of five external members and a Secretary ex-officio. All members and the secretary are appointed by the Director-General.

9. The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.

10. Members are selected on the basis of their qualifications as senior audit and/or investigation professionals. Due regard is paid in their selection to gender and geographic representation in the Committee.

11. 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.

12. Members serve in their personal capacity and cannot be represented by alternate attendees.

13. The Committee elects its own Chairperson from within their number.

14. 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.

## V. Secretariat

15. The Secretary of the Audit Committee is the Inspector-General ex officio, who shall report directly to the Chairperson on matters relating to the work of the Audit Committee. OIG provides Secretariat staff support.

## VI. Meetings

16. 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.

17. The members of the Audit Committee are normally given at least ten working days' notice of meetings.

18. The Chairperson approves a provisional agenda for the meetings that should be circulated together with the invitations.

19. 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 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.

20. 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.

21. 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.

22. If the Chairperson is unable to attend a meeting, the other Members elect an Acting Chair for that meeting from among the members present.

23. The Chairperson may invite OIG or other FAO staff, or the external auditor, to attend meetings.

24. 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.

25. 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.

26. 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.

## **VII. Conflicts of Interest**

27. Prior to their appointment, new members complete a conflicts of interest declaration. Where an actual or potential conflict of interest arises, the 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.

## **VIII. Responsibilities and Liabilities of Members**

28. 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.

29. 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.

## **IX. Reporting**

30. 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 Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.

## **X. Remuneration and Reimbursement of Costs**

31. 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.

## **XI. Periodic Review of the Terms of Reference**

32. The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.

## Annex 3

Recommendation		FAO AC Report paragraph reference	Responsible Unit	Classification of Status <sup>1</sup>	Management/OIG Comments
1.	OIG, as part of its 2014 audit work programme component supporting the Organizational transformation, give attention to providing further assurance and advice in the coming year on how [key initiatives started under the Immediate Plan of Action: Results-based management, Enterprise Risk Management and Performance Management; and an Accountability and Internal Control Framework] are being implemented under the new Framework.	2013 report, para 19	OIG	Implemented	OIG's 2014 and 2015 audit work gave particular attention to the implementation of the new strategic framework at FAO, taking into account the status of actions relating to RBA, ERM and performance management. Specifically, OIG issued an advisory report on the implementation of the new Strategic Framework (AUD0315). In addition, in 2015 OIG cooperated with OSP in the development of the ERM corporate risk register (as a first outcome of this cooperation, the Draft Corporate Risk Log was issued in August 2015) and on the development of FAO's Internal Control Framework (in progress as at the end of 2015). OIG's 2016-2017 audit work programme makes provision for further substantial review work in this area in the coming biennium.
2.	Management to give priority to implementing the recommendations in the [OIG audit] reports, to	2013 report, para 20	DDO/CSD/CIO	Action In progress.	DDO/CSD/CIO will address governance of support arrangements as part of the CAPEX ERP roadmap project. SSC and

<sup>1</sup> For the purpose of assessing the status of its recommendations, the FAO Audit Committee endorses the categories of "implemented", "action in progress", "agreed but pending action" and "not agreed".

	manage identified GRMS post-deployment system risks and IPSAS project risks, and ensure FAO efficiently prepares IPSAS compliant financial statements.				CIO have in place Service Level Agreements for GRMS support. Additional SLAs to cover the overall support performance framework (i.e. decentralized offices) will be added in 2016 as part of the support model. With regard to IPSAS implementation, FAO successfully completed its first (2014) IPSAS-compliant financial statements in 2015. With regard to the definition of effective long-term support and governance arrangements for FAO's ERP, OIG notes that in September 2015 the CapEx Management Board, and the Director-General approved an allocation of USD 300,000 to the initiative "FAO Enterprise Resource Planning System Assessment and Roadmap" which will inter alia evaluate the global ERP support model and review current governance arrangements for GRMS and other ERP systems, as recommended by OIG.
3.	The Organization consider further incentives and disincentives for Regional and Country management to improve performance and internal control.	2013 report, para 22	DDO/OSD	Action in progress.	FC157-15 provides a Progress Report on an Accountability and Internal Control Framework. The Accountability Policy was promulgated end-December 2014. It sets the basic parameters and objectives for internal control. The conclusion of the Internal Control Framework will further support implementation of the Accountability Policy, including in relation to the Decentralized Offices Network.
4	OIG to further implement, in other audit reports on headquarters-	2014 report, para 6.1	OIG	Implemented	OIG began piloting in 2015 the use of overall assignment ratings in its

	specific or corporate themes, the evaluation [rating] scale used in its decentralized office audit reports.				headquarters-specific and corporate audit reports. In some cases this was linked to a maturity scale analysis.