

March 2012



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FINANCE COMMITTEE

Hundred and Forty-third Session

Rome, 7 - 11 May 2012

Proposed Arrangements for the Selection and Appointment of the External Auditor

Queries on the substantive content of this document may be addressed to:

Mr Nicholas Nelson

Officer in Charge, Finance Division

Tel: +3906 5705 6040

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EXECUTIVE SUMMARY

- The term of office of the incumbent External Auditor will come to an end in 2013 and the tender process for the appointment of the External Auditor for the six year period starting with the biennium 2014-2015 must now be initiated.
- The document presents the proposed procedures governing the tender, selection and appointment of the new External Auditor.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to confirm the proposed arrangements for the selection and appointment of the External Auditor for the period 2014-2019.
- The Committee is requested to confirm the composition of the Working Group which will prepare a shortlist of bidders who will be invited to deliver an oral presentation to the Finance Committee

Draft Advice

- **The Committee reviewed the document and confirmed the proposed arrangements for the selection and appointment of the External Auditor.**
- **The Committee requested that the Secretariat initiate the selection process by inviting proposals from eligible Auditors-General of Members of FAO and to present a progress report on the Selection and Appointment Process to its next regular session.**
- **The Committee agreed that the following members of the Finance Committee will participate in the Working Group which will prepare a shortlist of the best proposals to be invited to deliver an oral presentation to the Finance Committee.**

Introduction

1. At its 122nd Session in May 2008, the Finance Committee considered the issue of the limitation of the term of office of the External Auditor and noted that at its 119th Session of September 2007, it had agreed in principle to recommend a policy change to introduce a single six-year non-renewable term of office for the External Auditor .

2. In discussing its earlier recommendation, the Committee considered the implications of the recommendation vis-à-vis the incumbent External Auditor, the Commission on Audit of the Republic of the Philippines, who had been appointed for a period of four years (two biennia), with possible extension for a further two-year period (one biennium). The Committee concluded that if the term of office of the External Auditor was not extended for an additional period of two years, the new policy of a single six-year non-renewable term of office of the External Auditor could be introduced then in respect of the appointment of the External Auditor. On the contrary, if it was decided to extend the appointment of the External Auditor for another biennium, the new policy would be introduced only in 2013. In both cases, the incumbent External Auditor should be allowed to bid in any tender process.¹

3. At its 141st Session in April 2011, the Council decided to renew the appointment of the Commission on Audit of the Republic of the Philippines as External Auditor of the Organization, for a further period of two years, commencing with the year 2012, following the original four year term.² This two year term will come to an end in 2013. The tender process for the appointment of the External Auditor for the six year period starting with the biennium 2014-2015 must therefore now be initiated.

4. In accordance with General Rules of the Organization, the Finance Committee is required to "recommend to Council the appointment of the External Auditor"³. Prior to commencing the tender process, the Finance Committee is required to review and confirm the procedures governing the tender and the selection and appointment of the External Auditor.

5. The Financial Regulation relevant to the appointment of the External Auditor is as follows:
Financial Regulation 12.1:

“An External Auditor, who shall be the Auditor-General (or person exercising an equivalent function) of a Member Nation, shall be appointed in the manner and for the period decided by the Council”.

6. At its 115th Session in November 1998, the Council endorsed the proposal, as submitted in document FC 89/7, covering the arrangements foreseen under Financial Regulation 12.1 for External Audit.

7. In addition to these arrangements, at its 95th Session in September 2000, the Finance Committee agreed on a set of detailed operational procedures and arrangements for the selection and appointment of the Organization’s External Auditor. These procedures were used during the selection and appointment of the incumbent External Auditor in 2000-2001.

8. At its 115th Session in September 2006, the Finance Committee confirmed that the process to be adopted during the selection and appointment of the External Auditor in 2006-2007 should be similar to that adopted during the selection of the incumbent External Auditor and agreed on certain additional detailed procedures.⁴ In particular:

- A shortlist of the best proposals should be drawn up by a working group comprising the Secretariat and a regionally representative group of Committee members. The working group should determine how many proposals to include in the shortlist and the shortlisted bidders should be invited to deliver an oral presentation to the Finance Committee.

¹ Document CL135/7, para 53-55.

² Document CL 141/REP, para 15, Resolution 1/141

³ Rule XXVII, paragraph 7(m)

⁴ CL 131/7, para 31

- In case a shortlisted bidder was from a country whose representative was also a member of the Finance Committee, that member should absent herself/himself from the evaluation.

9. The arrangements and detailed procedures agreed at the above noted Finance Committee sessions are included below, for ease of reference. The procedures include the following:

- General policies
- Eligibility to bid
- Number of terms to be served by the External Auditor
- Time-frame (updated)
- Selection process
- Proposed content of guidelines to ensure consistency of proposals
- Selection criteria
- Rating system of proposals
- Oral presentation

General Policies

10. In order to ensure that selection is the result of a competitive process open to the widest possible range of eligible external auditors, including those from developing countries, the following general policies covering selection and appointment are proposed:

- Selection of the External Auditor should be a competitive process, involving review of proposals from a wide range of eligible external auditors, governed by pre-determined and agreed procedures and weighted selection criteria established by the Council;
- Invitation to bid should be open to all eligible external auditors, and external auditors from developing countries in particular should be encouraged to bid;
- The Finance Committee, assisted by the Secretariat (see Section on Proposed Procedures for Selection and Appointment below), should initiate and oversee the competitive selection process, evaluate all proposals received and present to the Council the results of its evaluation, together with its recommendation; and
- The Council should review the results of the evaluation and the recommendation of the Finance Committee and appoint an External Auditor on the basis thereof.

Eligibility to Bid

11. In accordance with Financial Regulation 12.1 above, only Auditors-General of Members are allowed to bid for the external audit of the Organization. However, Financial Regulation 12.8 does allow an External Auditor to “engage the services of any national Auditor General or commercial public auditors of known repute or any other person or firm who, in the opinion of the External Auditor, is technically qualified”, for the purpose of making a local or special examination or of effecting economies of audit cost.

12. The invitation to bid could therefore specify that, all other things being equal, preference in selection will be given to auditors undertaking to sub-contract work to other eligible auditors from developing countries. The lead auditor will, however, retain sole contractual responsibility for the bid and delivery of the services to be provided, in cases where part(s) of the work are sub-contracted to other parties.

13. This approach, which is consistent with the spirit of technical cooperation between countries, offers an opportunity to involve countries which do not have the resources to audit the whole of FAO on their own, in the audit of part of FAO’s activities. From a contractual viewpoint, the Governing Bodies appoint the lead auditor who in turn is responsible for managing relationships with any other party involved in the audit.

Number of Terms to be served by External Auditor

14. As confirmed by the Finance Committee at its 122nd Session in May 2008, the External Auditor should be appointed for a single six-year non-renewable term of office, following which the appointment for External Auditor must be re-tendered. The incumbent External Auditor should be allowed to bid in any tender process.

Time Frame

15. In order to ensure that due consideration is given to the various stages of the selection process, the Secretariat will work towards accomplishing the process from invitation to appointment of the External Auditor of FAO according to the following indicative time frame:

Milestone Event	Time Frame	Action by
Invitation for Proposals	August 2012	Secretariat
Receipt of Proposals	September 2012	Secretariat
Preparation of Comparative Analysis	October 2012	Secretariat
Review Bids and Prepare Shortlist	November 2012	Finance Committee Working Group
Oral presentation, evaluation and recommendation	March 2013	Finance Committee
Appointment by the Council	April 2013	Council

Selection Process

16. The process for selecting and appointing the External Auditor of FAO, would be as follows:
- **Invitation** – The Secretariat will invite proposals and responses from eligible Auditors-General of Members of FAO;
 - **Receipt and Opening of Proposals** – The Office of the Inspector-General (OIG) will receive and open proposals applying existing FAO procedures for the receipt and opening of proposals. OIG will then turn over all valid proposals to Finance Division (CSF) who will prepare a comparative analysis of proposals based upon the application of weighted evaluation criteria for the consideration of the Finance Committee;
 - **Evaluation of Proposals:** - A Shortlist of the best proposals will be drawn up by a working group comprising the Secretariat and a regionally representative group of Committee members. The working group should determine how many proposals to include in the shortlist and the shortlisted bidders should be invited to deliver an oral presentation to the Finance Committee.⁵ Proposed evaluation criteria and proposed relative weightings are described below. Taking into account all information obtained in relation to short-listed proposals, the Finance Committee will present its report and recommendation to the Council; and
 - **Appointment** – On the basis of the evaluation and recommendation of the Finance Committee, the Council will decide upon and approve the appointment of the External Auditor.

⁵ Note: In case a shortlisted bidder is from a country whose Representative is also a member of the Finance Committee, that Member should absent himself/herself from the evaluation.

Proposed Content of Guidelines to Ensure Consistency of Proposals

17. In order to ensure that proposals are prepared in a consistent manner, in terms of nature and scope of information provided, and therefore to facilitate comparison of bids, the guidelines issued to eligible auditors should broadly follow the standard procedures employed by FAO when issuing invitations to tender for the provision of professional services. Such standard procedures could be adapted if required to meet the particular requirements of the appointment of the External Auditor by the FAO Council.

18. In any case, such guidelines should include:

- a clear statement of the tender procedures and conditions;
- a clear description of the documents enclosed with the invitation (including terms of reference of the external auditor, format of required audit opinion, copies of all accounts on which an opinion is required, copy of the Programme of Work and Budget and other relevant information etc.);
- clear instructions for the completion of those documents to be submitted as part of the proposal (including detailed curriculum vitae of all staff to be assigned to the audit, membership of relevant professional and other accounting/auditing bodies, details of existing professional education programme, proposed audit approach etc.) and detailed description of the nature of information to be included in each;
- clear statement of the requirement that in order to be considered, the proposals submitted must be complete;
- information relating to currency of fees quoted in the proposal;
- submission terms and closing date; and
- instructions regarding communications with the Secretariat and identified contact point for further information.

Selection Criteria

19. The proposed selection criteria, for the approval of the Finance Committee, are:

- **Independence** – demonstrated autonomy from other institutions of the government, integrity, objectivity in the discharge of duties and responsibilities, ability to self-determine scope of audit;
- **Qualifications of Officials and Staff** – conformity to the auditing standards of the United Nations Panel of External Auditors and ethics governing their work; professional qualifications, skills, and size of work force; membership in internationally recognized accounting or auditing bodies such as the International Organization of the Supreme Audit Institutions (INTOSAI), the International Federation of Accountants (IFAC), etc.; and proficiency in English and at least one other FAO official language;
- **Training and Experience** – existence of a programme for continuing professional education for staff; experience in the audit of United Nations organizations or other national or international non-governmental organizations; staff adequately trained in modern trends of auditing and with extensive audit experience; and experience from audit in large organisations using ERP systems. It is proposed that in addition to these criteria used during the previous tender process, that familiarity with the audit of financial statements prepared in accordance with International Public Sector Accounting Standards (IPSAS) be added as a selection criteria under Training and Experience;
- **Audit Approach and Strategy** – comprehensive work plans to ensure adequate audit coverage of all FAO resources; performance of financial and compliance audits as well as economy, efficiency and value-for-money audits; and collaboration with FAO's Inspector-General to optimize the use of limited audit resources;
- **Audit Reports** – timely communication of audit results presented to management through comprehensive management letters and audit reports; audit reports should be accurate, complete, balanced, fair and constructive; and

- **Cost** – the most competitive fees.

Rating System of Proposals

20. The Secretariat will prepare a comparative analysis based on the following rating system, used also in the analysis of proposals received during the process of selecting the incumbent External Auditor in 2001 and 2007:

	Rating Weight	
Technical		80
Independence	15	
Qualifications of Officials and Staff	15	
Training and Experience	15	
Audit Approach and Strategy	25	
Audit Reports	10	
Cost		20
Total		100

21. The Secretariat will score each of the proposals based on the specific criteria listed in the Annex to this paper using a score scale of 1 to 5 (1 as worst and 5 as best). At the same time, each of the specific criteria has been given a specific weighting totalling 100% as per the above table to reflect the relative importance or relevance to the overall competency of the proposals.

22. Scores on the scale of 1 to 5 will be assigned for each criterion based on the replies to a questionnaire completed by the invited Auditors-General. The scores will be multiplied by the weight to arrive at a total score for each criterion. The total scores for each criterion are then added up to arrive at an overall total score obtained. The Annex provides indicative guidance on how each criterion would be scored at the lowest and highest ranges of the scale from 1 to 5.

Oral Presentation

23. The short-listed candidates will be requested to make an oral presentation to the Finance Committee. The purpose of the oral presentation is to provide an opportunity to the Committee to seek further clarification or obtain a better understanding of the proposals from the candidates, in order to confirm their overall rating.

24. The oral presentation should cover in a similar manner the matters in the original proposals, and should not be an opportunity to submit new or significantly altered proposals.

25. The Finance Committee will recommend to the Council the candidate with the highest overall score achieved after the oral presentation.

Recommendation

26. To enable the Secretariat to initiate on a timely basis and oversee the process for the selection and appointment of the External Auditor of FAO for 2014-2019, the Finance Committee is requested to confirm the procedures for the selection and appointment of the External Auditor as described above, including the time frame presented in paragraph 15 and the rating system presented in paragraph 20. Based on this confirmation, the Secretariat will initiate the selection process by inviting proposals from eligible Auditors-General of Members of FAO and present a progress report on the process to the Committee at its next regular session

27. The Committee is also requested to agree on the members of the Finance Committee who will participate in the Working Group which will prepare a shortlist of the best proposals to be invited to deliver an oral presentation to the Finance Committee.

GUIDELINES FOR SCORING OF CRITERIA

Notes:

These are only indicative guidelines which are not necessarily exhaustive and may be supplemented and expanded by the Secretariat, as necessary, upon receipt of the actual proposals.

For example, a maximum score of 5 could be awarded if all the requirements are fully met. The lowest score of 1 could be awarded if none of the requirements are met.

	Score	5-Highest
TECHNICAL		
Independence		
	Demonstrated autonomy from other institutions of the government	<p>Audit institution is independent and reports to legislature, parliament or other body independent of the government.</p> <p>Audit institution head serves full term in office (i.e. cannot be removed without completing full term).</p> <p>Audit institution has full control over its budget (i.e. the institution's budget is not under the control of the executive or other government office).</p>
	Integrity	<p>Audit institution has a code of professional and ethical conduct applicable to all its staff and this code is frequently updated.</p> <p>Audit institution has clear and documented disciplinary procedures and these are applicable to all audit institution staff in the case of deviation from the code of professional and ethical conduct.</p> <p>Audit institution staff are required to sign off yearly compliance statements of having abided by the code of professional and ethical conduct of the audit institution.</p>
	Objectivity in the discharge of duties and responsibilities	Audit institution work is demonstrably guided and performed in accordance with generally accepted auditing standards.
	Ability to self-determine scope of audit	Audit institution demonstrates scope of work is determined solely by the institution.
Qualification of officers and staff		
	Conformity to the auditing standards of the United Nations Panel of external Auditors and ethics governing their work	Audit institution demonstrates its officers and staff have extensive experience in the performance of work in conformity with auditing standards of the United Nations Panel of External Auditors and ethics governing their work.
	Professional qualifications, skills and size of work force	Audit institution demonstrates it has high number of qualified professional accountant staff (and professional qualification certificates are from an internationally recognized board or standard), including staff with accounting, finance, operations, procurements, transport and information technology audit

	Score	5-Highest
Criteria		
		<p>experience, particularly in client/server applications such as those used by FAO.</p> <p>Audit institution demonstrates it has sufficient and commensurate number of professional staff to ensure adequate audit coverage of all resources of FAO, as well as to maintain any other commitments the institution may have in addition to the audit of FAO.</p> <p>Audit institution demonstrates its staff have relevant skills and experience in the audit of other United Nations agencies, international NGOs, etc.</p>
Membership in internationally recognized accounting or auditing bodies such as INTOSAI, IFAC		Audit institution demonstrates it is a member of an internationally recognized accounting or auditing body.
Language proficiency		Audit institution demonstrates it has sufficient number of staff who speak and are proficient in at least two official FAO languages.
Training and experience		
Existence of a programme for a continuing professional education for staff		Audit institution professional staff required to attend continuing professional education training of at least two weeks every two years, and the institution demonstrates how this requirement is monitored and adhered to.
Experience in the audit of United Nations organizations or other national or international non-governmental organizations		Audit institution demonstrates its officers and staff have extensive experience in performance of audit work at United Nations organizations or other national or international non-governmental organizations, and that its officers and staff are up to date on emerging issues and trends in the audit and businesses of these organizations.
Staff adequately trained in modern trends of auditing and with extensive audit experience		Audit institution demonstrates that its officers and staff regularly and proficiently attend auditing 'best practices' professional seminars or other means of adequate training in modern and emerging audit trends and techniques, and that officers and staff individually have extensive audit experience.
Staff has experience from audit in organizations using ERP systems		Audit institution demonstrates its officers and staff have extensive experience in performance of audit work in large organizations that use ERP systems.
Staff are familiar with the audit of financial statements prepared in accordance with International Public Sector Accounting Standards (IPSAS)		Audit institution demonstrates its officers and staff have a theoretical knowledge acquired through training or other relevant means of the audit of financial statements prepared in accordance with IPSAS.
Audit approach and strategy		
Comprehensive work plans to ensure adequate audit coverage of all FAO resources		Audit institution demonstrates it prepares extensive and comprehensive work plans, coordinates and communicates this with management of the audited organization. The audit

	Score	5-Highest
Criteria		
		institution demonstrates its audit methodology conforms to best practices. The audit institution demonstrates it implements adequate quality assurance procedures and programmes to ensure audit work is always of high standard.
Performance of financial and compliance audits as well as economy, efficiency and value-for-money audits		Audit institution demonstrates it has extensive experience in conducting financial, compliance, economy, efficiency and value-for-money audits. Audit institution demonstrates it has adequate division and structure in the organization of responsibility along lines of types and nature of work undertaken (to ensure specialization and extensive audit skill and experienced resources available to the institution). Audit institution demonstrates it is able to take initiative and to deal effectively with new and emerging or particular issues relevant to the audit and business of FAO, in an innovative manner, and in coordination and cooperation with management.
Collaboration with FAO's internal audit to optimize the use of limited audit resources		Audit institution demonstrates extensive experience and reliance placed on work of internal audit units. The audit institution demonstrates how the use of limited audit resources was optimized in the institution's own experience, and how the institution will optimize this in the audit of FAO.
Audit Report		
Timely communication of audit results presented to management through comprehensive management letters and audit reports		Audit institution demonstrates its audit reports are structured in a format judged to be adequate to convey clearly results of the audit. Audit institution demonstrates it conveys audit results in a timely manner and with effective basis to management, discusses audit results on a preliminary basis with management, provides opportunity to management to make comments and provide input before management letters or audit reports are finalized, and reflects in the final management letter or audit report management's comments and input, as necessary.
Audit reports are accurate, complete, balanced, fair and constructive		Audit institution demonstrates its management letters and audit reports do not appear to be superficial, reflect an adequate understanding of the business and issues relevant to FAO, are well written, and provide very helpful, practical, feasible and constructive recommendations to management.
Costs		
Most competitive fees		Audit institution's fees are very competitive and judged to be adequate and proportionate to the work to be undertaken, and the institution demonstrates these fees are neither too low so as to inhibit effective and efficient execution of audit work nor too high as may be judged to be disproportionate to work to be undertaken.