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FINANCE COMMITTEE

Hundred and Forty-third Session

Rome, 7 - 11 May 2012

FAO Audit Committee - 2011 Annual Report to the Director-General

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

Mr E. Ouko

Chairman of the FAO Audit Committee

Tel: 00254706100606

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EXECUTIVE SUMMARY

- The Director-General is pleased to provide the Finance Committee with the Audit Committee's 2011 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. It also recommends that attention be given in 2012 to updating of OIG's Charter and the Terms of Reference of the Audit Committee. The Director-General concurs and the proposed updates will be reviewed in conjunction with the results of the 2012 external quality assurance review of OIG's audit activity, in time for consideration by the Finance Committee at its Autumn 2012 session.
- The Committee makes a recommendation on transferring the initial review of whistleblower retaliation complaints from OIG. This will be considered further by management as part of the review of the implementation of FAO's Whistleblower Protection Policy, which will be reported to the Finance Committee and the Committee on Constitutional and Legal Affairs at their Autumn 2012 sessions.
- The Committee notes the follow up action taken by FAO management on both internal and external audit recommendations, and encourages continued efforts to reduce the time to close recommendations. The Director-General concurs with the report's recommendations that the definition of long-outstanding internal audit recommendations used for monitoring purposes be changed from 36 months to 24 months. Management update of actions on high risk long-outstanding recommendations will be provided at the forthcoming Finance Committee session.
- The Committee reviewed and endorses the recommendations in OIG's reports on the overall IPA implementation, Results-Based Management, IPSAS, decentralization, and accountability and internal controls. The Committee encourages expeditious action on the recommendations contained in these reports and recommends that Management revisit the sequencing and interlinkages within key reform initiatives, define realistic objectives and ensure appropriate project management principles are applied. The Director-General confirms that these aspects will be taken up in the follow up of OIG's recommendations.
- The report reiterates, and the Director-General concurs with, the need for FAO to adopt a vendor integrity programme appropriate to FAO's procurement methodologies.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2011.

Draft Advice

- **The Finance Committee takes note of the FAO Audit Committee's Annual Report for 2011.**

FAO AUDIT COMMITTEE

2011 ANNUAL REPORT TO THE DIRECTOR-GENERAL

1. INTRODUCTION

1.1 As an independent advisory expert body, the FAO Audit Committee assists the Director-General 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) and management action on audit recommendations and investigation reports.

1.2 According to the Committee's Terms of Reference (TOR), which is copied in Annex 1, the Director-General is to submit a copy of the Committee's annual report to the Finance Committee, together with his/her comments thereon, if any.

1.3 This Ninth Annual Report of the Committee provides an overview of the Committee's discussions and recommendations during 2011. The Committee met twice in 2011, in March and August, at FAO headquarters. The third meeting for the year, in FAO's Regional Office for Asia and the Pacific, was postponed until January 2012 due to the Bangkok flooding in late 2011. This report covers deliberations in all three meetings.

1.4 The composition of the Committee is provided in Annex 2.

2. FUNCTIONING OF THE COMMITTEE

2.1 The three meetings during the reporting period were held over two days each time. In addition to its engagement with OIG, the Committee interacted with FAO managers from both the Knowledge and Operations arms, the IPA Programme Management Unit, the Legal Office, the Ethics Office, and the Evaluation Office to obtain briefings and updates on a wide range of issues in line with its mandate.

2.2 The Committee is pleased to report a closer engagement with the External Auditor than in previous years. The Committee was briefed on the external audit plans, audit progress and results, at each of the three meetings for the year. At its January 2012 meeting the briefing was led by the Commissioner of Audit of the Republic of the Philippines.

2.3 The Director-General has designated the Deputy Director-General-Operations as his focal point to obtain feedback on the key issues raised during its scheduled meetings and to be briefed on the results of the Committee's deliberations at the conclusion of each meeting. The Committee met with the focal point or his alternate at each meeting. During such briefings, the Committee drew attention to a number of matters, key amongst which are discussed in this report.

2.4 The Committee regularly reviewed its functions and considers that it has discharged its duties in accordance with its current TOR.

3. CONCLUSIONS

3.1 Based on the information provided by OIG, the results of an internal quality assurance review of the internal audit function in 2011, and the briefings provided by FAO management and the External Auditor, the Committee:

- considers that OIG is delivering its audit and investigation services adequately and effectively, including implementing a process of continuing improvement;

- appreciates the implementation by OIG of past action plans to move towards general conformance with international internal auditing standards, and to enhance the quality of its investigation function, and commends the Inspector General and staff in this regard;
- welcomes the efforts made in 2011 by OIG to cover 95% of its audit work plan, with all changes to the plan communicated to the Director-General and the Audit Committee, and to respond to the rising investigation caseload. Bearing in mind the strong demand for advisory work made on OIG, the Committee counsels OIG to ensure that the balance of planned assignments between assurance and advisory work is maintained;
- notes with satisfaction that OIG and the External Auditor met regularly during 2011 to coordinate their respective activities to avoid duplication of audit work;
- welcomes the progress made on fiduciary and integrity measures which will strengthen the framework in which OIG operates, including the FAO Whistleblower Protection Policy and the FAO Investigation Guidelines issued in 2011, and looks forward to further progress on the recommendations included in this report;
- notes the follow up action taken by FAO management on both internal and external audit recommendations, and encourages continued efforts to reduce the time to close recommendations.

4. FOLLOW-UP ON ITEMS IN THE COMMITTEE'S 2010 REPORT

4.1 The Committee reviewed the updated implementation status of key recommendations of its 2010 report. The Committee notes that actions by Management are in progress:

4.2 **Integrity Framework:** The Committee was informed of FAO's endorsement of the Model Policy Framework for Agencies of the UN System to Consider for Vendor Sanctions Procedures. The Committee encourages FAO to formulate a plan for implementation of a vendor integrity programme appropriate to its procurement methodologies in 2012. As the Committee stated in its 2010 Annual Report, this programme should include consistent inclusion of anti-corruption and right to audit vendor records clauses in vendor contracts; and to clarify what the Organization's response should be when it is determined that vendors have engaged in improper activities during tenders or in the course of contract implementation. Management is encouraged to establish proper leadership and accountability for this initiative, in order to ensure its success.

4.3 **External Audit Recommendations:** In 2011, the External Auditor briefed the Committee twice on the results of its 2008-2009 audit, including the Long-Form Report (management letter) which contained 27 recommendations, and the implementation of its 2010-2011 audit. The 27 recommendations encompassed and took into account outstanding aspects of previous External Audit recommendations. The Committee notes that, in October 2011, the Finance Division submitted to the Finance Committee a progress report on implementation of these recommendations. The External Auditor has informed the Committee that it will validate implementation during its 2010-2011 audit and will report on the results to the Governing Bodies.

4.4 **TOR of the Audit Committee:** As the Committee reported in its 2010 Annual Report, it is a best practice to periodically review the TOR of an Audit Committee. In 2011, the Committee prepared a proposed revision to the current FAO Audit Committee TOR. This proposal updated the TOR for the changes in the appointment of members arising from implementation of Immediate Plan of Action item 2.92. The proposal also added information on the operation of the Committee in line with good practices drawn from the Representatives of Internal Audit Services of the United Nations and Multilateral Institutions Position paper "Generally Accepted Audit Committee Principles and Identified Good Practices", and the TOR for other similar UN specialized agencies.

4.5 The Committee will submit the revised TOR to the Director-General in 2012 for his review and approval.

5. MATTERS ARISING FROM 2011

5.1 During its 2011 meetings, the Committee reviewed a number of issues and provides advice to the Director-General on these as indicated below.

5.2 **OIG Charter:** In 2011, OIG updated its Charter to formalize the audit report disclosure policy that was approved by the Council in April 2011. The Committee concurred with OIG proposals for a further update to incorporate the recommendations of the 2011 quality assurance review to add definitions of the assurance and advisory services the OIG conducts as part of its audit function, as required by the International Audit Standards. OIG has submitted the revised TORs to the Director-General in 2012 for his review and approval.

5.3 **FAO Reform Initiatives:** The Committee notes from briefings from management and OIG reports the current status and challenges of key elements of the IPA, such as Enterprise Risk Management, the IPSAS component of the Global Resource Management System, Results-Based Management, and the Performance Evaluation Management System. The intended benefits of these initiatives have not yet been realized. The Committee recommends that management revisit the sequencing and interlinkages within these initiatives, define realistic objectives and ensure appropriate project management principles are applied. The Committee advises the Director-General to direct the relevant entities to take all steps necessary to ensure timely completion of these initiatives.

5.4 The Committee reviewed and endorses the recommendations in OIG's reports on the overall IPA implementation, Results-Based Management, IPSAS, decentralization, and accountability and internal controls. The Committee encourages expeditious action on the recommendations contained in these reports.

5.5 **OIG Recommendations:** In its 2010 Annual Report, the Committee noted the Organization had reported some progress in addressing past internal audit recommendations related to several "high risks" and actions to improve the rate of implementation of all recommendations, especially some of the "high risk" recommendations. Although the Committee noted some additional improvements in the overall rate of implementation in 2011, it is concerned that progress by management in implementing past long-outstanding high risk recommendations, especially in key areas such as business continuity, and IT security, has not proceeded as quickly as warranted given the nature of the risks they are mitigating.

5.6 In order to ensure timely action on OIG recommendations, the Committee recommends that the definition of long-outstanding audit recommendations be changed from 36 months to 24 months. The Committee recommends that management responses on high risk long-outstanding recommendations accompany OIG's annual report.

6. MATTERS RELATING TO OIG

6.1 **Internal Audit Quality Assurance Review:** During the year, the Committee reviewed the results of the quality assurance review of OIG's internal audit function, and was pleased to note the conclusion that the function was now in general conformity with the International Standards for the Professional Practice of Internal Auditing. This review was an abbreviated form of a full external review which will be carried out as required by the Standards in 2012. The 2011 review provided recommendations to OIG to further improve in certain areas and these will be subject to further review in the full external review.

6.2 **Risk-Based Audit Assurance:** The Committee notes that OIG successfully completed implementing its first Risk-Based Audit Plan for the 2010-2011 biennium. A risk-based audit plan aims to provide assurance on high risk areas of the Organization. The methodology applied allows the audit plan to stay aligned with the key risks of the Organization, and will provide an appropriate basis for monitoring the assurance coverage achieved over time. The Committee also reviewed, provided input to and approved OIG's 2012-2013 Risk-Based Audit Plan that was submitted to and endorsed by the Director-General. The 2012-2013 Audit Plan targets the remaining high risks from the risk register OIG developed in Partnership with Deloitte and input from FAO management in late 2009. Working

in collaboration with the ERM Project management team, OIG updated the risk register in late 2011 and as appropriate, incorporated all new risks into its new Audit Plan. This will be an ongoing requirement.

6.3 Investigative Functions: The Committee took note of OIG's new triage policy and recognized its importance for prioritizing investigations in light of available investigative resources. The Committee also took note of FAO's new Whistleblower Protection Policy and its impact on the investigative function. The majority of the cases dealt with by OIG under this policy related primarily to issues of work place and management performance. Therefore, the Committee recommends that, particularly given OIG's limited resources, and in line with Whistleblower Protection Policies in many other UN Organizations and Agencies, the Organization consider whether the initial review of complaints under this policy be handled by a competent party outside OIG. The Committee also noted that the outcome of recent investigations pointed to the need for the Organization to raise awareness on issues related to conflicts of interest by staff and the Organization's policies in this regard.

6.4 OIG Report Disclosure: In April 2011, the FAO Council approved an OIG report disclosure policy that makes available to Permanent Representatives, for viewing, internal audit reports and reports of lessons learned from investigations in their original language. On the recommendation of the Committee, OIG developed standard operating procedures to guide in more detail the implementation of the policy. As there were no instances of redaction or withholding of reports by OIG in the period following implementation of the policy, there was no requirement for review of these instances by the Audit Committee.

6.5 OIG staffing: The Committee notes that, during 2011, OIG continued to keep recruitment of vacancies a top priority. During the year, OIG filled an additional three internal audit posts and by the end of 2011, all original vacancies at the beginning of 2010 had been filled and all but two ensuing P-level vacancies had been filled, one of which only became vacant in September 2011 when a P5 senior auditor transferred to OSP to continue leading the Enterprise Risk Management Project. The Committee welcomed the fact that during 2011 OIG continued to diversify its geographical representation and maintain attention to its gender balance, while ensuring that the selected staff had the appropriate qualifications and experience. The Committee will continue to monitor the staffing sufficiency of OIG.

7. ACKNOWLEDGEMENT

7.1 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 2011 meetings.

Appendix C

FAO's AUDIT COMMITTEE1. Introduction

The Committee operates as an advisory panel to the Director-General and to the Office of the Inspector General (AUD). Its aim is to assist the Organization in gaining house-wide acceptance of the importance and value of the internal audit, inspection and investigation functions and provide the Director-General with assurance that these functions are operating effectively and efficiently. The Committee will:

- i) appraise the adequacy and effectiveness of the internal audit services and its strategies, priorities and work plans and suggest potential audit areas to address the Organization's risks;
- ii) review progress in the implementation of AUD's action plans which have been agreed upon; and
- iii) take note of the reports of the External Auditor and monitor timely follow-up of his/her recommendations.

2. Terms of Reference

The Committee has the following responsibilities:

- a) ensure the independent role of the Office of the Inspector General (AUD);
- b) review and provide advice on the biennial work plans of AUD in the areas of audit and inspection;
- c) review significant risks facing the Organization;
- d) assess the effectiveness and adequacy of internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed on high-risk areas;
- e) review the reports of AUD and the External Auditor (except for reports specifically requested by donors), assess the implications of their findings on existing policies, systems and procedures and actively oversee and monitor the timely implementation of the audit recommendations;
- f) satisfy itself that AUD adheres to the international internal auditing standards adopted by the heads of audit of the United Nations, the Specialized Agencies as well as by the World Bank and other entities within the UN system;
- g) review investigation findings of presumptive or actual mismanagement, irregularities and fraud, and monitor follow-up responsibilities;
- h) review the AUD annual activity report to the Director-General subsequently provided to the Finance Committee;
- i) review the performance and effectiveness of AUD, ensuring consistency with approved plans and the Charter of the Office of the Inspector General;
- j) satisfy itself that the resources available for AUD are sufficient to meet the Organization's needs; and
- k) provide advice to the Director-General and the Inspector General as it deems appropriate.

3. Composition of Committee

The Committee consists of five external members and a Secretary *ex-officio*. All members and the secretary are appointed by the Director-General. Members are selected on the basis of their qualifications as senior audit and/or investigation professionals. The Committee elects its own Chairperson. The Inspector General will provide secretariat services to the Committee.

4. Term of Office

Members serve for a two-year period, which may be renewed at the discretion of the Director-General for one or more years.

5. Meetings

- i) At the discretion of the Chairperson, the Committee may meet three to four times each year. Additional meetings may be called by the Chairperson if deemed appropriate.
- ii) The Inspector General has the right to request the Chairperson of the Committee to convene a meeting if necessary.
- iii) 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 (Inspector General) will have no voting rights.

6. Reporting and Authority

The Committee reports to the Director-General and all reports of the Committee will be addressed to him. The Director-General will provide a copy of the Committee's annual report to the Finance Committee, together with the Director-General's comments thereon, if any. The Chairperson or another member, as decided by the Committee, will be invited to the Finance Committee session to present the Committee's annual report. The Committee will have the authority to:

- i) Obtain all necessary information and consult directly with the Inspector General and his/her staff;
- ii) Access all reports and working papers produced by AUD;
- iii) Seek any information it requires from any staff member and require all staff members to cooperate with any request made by the Committee; and
- iv) Obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if considered necessary.

COMPOSITION OF THE FAO AUDIT 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.

3. The Committee's 2011 composition was as follows:

Members: Mr E. Ouko (Chairman)
 Mr C. Andreasen
 Mr A. Khan
 Ms F. Ndiaye
 Mr S. Zimmermann

Secretary (ex-officio): Inspector General