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## FINANCE COMMITTEE

**Hundred and Forty-eighth Session**

**Rome, 18 - 22 March 2013**

**Terms of Reference of the FAO Audit Committee**

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

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### EXECUTIVE SUMMARY

- A revised version of the proposed update of the Terms of Reference (ToR) of the FAO Audit Committee has been prepared for endorsement of the Finance Committee. The revisions have been made, in accordance with the guidance of the Finance Committee at its 147th session, to:
  - a) confirm the existing eligibility requirements, such that they are selected on the basis of their experience and qualifications as senior audit and/or investigation professionals;
  - b) apply the two year waiting period for eligibility on retirees only to those from the FAO Secretariat, deleting the reference to former members of Permanent Representations;
  - c) delete the reference to arrangements for the Director-General to designate a focal point for communicating the results of the Committee's deliberations; and
  - d) strengthen the reference to the Audit Committee's reporting to the Governing Bodies.
- The ToR has also been updated so that members may serve, after their initial term, for a further period up to a maximum of six years in total.
- The proposed item on conflict of interest (new paragraph 7.1) is unchanged. It is proposed that all Members sign a conflict of interest declaration developed by the Ethics Office for use by external experts serving on FAO committees.
- The Secretariat surveyed practice in the UN System concerning the Secretariat of the audit committees. In five of the 14 organizations surveyed, this was in practice the office responsible for internal audit and investigation. In nine organizations, it was other offices of the Organization, usually either the chief executive's office or the management/corporate services offices. In the case of the UN Secretariat the Independent Audit Advisory Committee has its own full time secretariat/secretary. Each organization surveyed, indicated it was satisfied with current arrangements, and did not plan to change them. The FAO Audit Committee was consulted and did not express concern with the Inspector-General remaining Secretary and OIG providing secretariat services. The Director-General proposes that the current arrangements be maintained at least for a further two years under the new ToR, at which time this matter may be revisited.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

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

#### **Draft Advice**

- **The Committee concurred with the proposed update of the Terms of Reference of the FAO Audit Committee, as revised to incorporate the guidance of the Finance Committee at its 147th session.**

## Introduction

1. The Terms of Reference (ToR) of the FAO Audit Committee are promulgated as Appendix C of Manual Section 146 – Internal Committees or Activities. A proposal for revision of the ToR was presented to the Finance Committee at its 147th session<sup>1</sup>. At that session, the Finance Committee requested the Secretariat to provide a revised version for endorsement at its next regular session in 2013, reflecting the following:

- i) proposed paragraph 4.3 now reinstates the eligibility requirements of the members, such that they are selected on the basis of their experience and qualifications as senior audit and/or investigation professionals;
- ii) proposed paragraph 4.4 now applies the two year limitation on retirees only to those of the FAO Secretariat, deleting the reference to former members of Permanent Representations; and
- iii) proposed paragraph 6.11 no longer makes reference to a Director-General's focal point.

2. In addition, the Finance Committee "requested the Secretariat to explore alternatives to having the Inspector-General serve as the Secretary to the Audit Committee and to applying the Financial Disclosure Policy to members of the Audit Committee, and requested making stronger references to the Audit Committee's reporting to the Governing Bodies".

### *Survey on Arrangements for Secretary of the Audit Committee*

3. Following the 147th session of the Finance Committee, the Secretariat surveyed practice in the UN System concerning the Secretariat of the audit committees. In five organizations this was in practice the office responsible for internal audit and investigation. In nine organizations it was other offices of the Organization, usually either the chief executive's office or the management/corporate services offices. In the case of the UN Secretariat the Independent Audit Advisory Committee has its own full time secretariat/secretary. Each organization surveyed indicated it was satisfied with current arrangements, and did not plan to change them. The FAO Audit Committee was consulted and did not express concern with the Inspector-General remaining Secretary and OIG providing secretariat services. The Director-General proposes that the current arrangements be maintained at least for a further two years under the new ToR, at which time this matter may be revisited.

### *Management of Conflict of Interest*

4. The proposed paragraph on management of conflict of interest (new paragraph 7.1) is unchanged. It is proposed that all Members sign a conflict of interest declaration developed by the Ethics Office for use by external experts serving on FAO committees.

### *Proposed Revisions*

5. The proposed revisions in the revised ToR attached comprise the following:

- incorporate the modifications requested by the Finance Committee outlined in paragraph 1 (i) - (iii) above.
- paragraph 1.2 has been modified to strengthen references to the Audit Committee's reporting to the Governing Bodies; and
- paragraph 4.7 has been modified to permit an extension of terms up to a maximum of 6 years (rather than 5 years as before). This is in line with the current practice and provides more flexibility to manage the staggering of terms. The actual extensions are subject to Finance Committee endorsement and Council approval per paragraph 4.2.

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

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<sup>1</sup> FC147/18

**PROPOSED CHANGES TO THE FAO AUDIT COMMITTEE TERMS OF REFERENCE, WITH FURTHER REVISIONS BASED ON GUIDANCE FROM THE 147TH SESSION OF THE FINANCE COMMITTEE**

<b>CURRENT TERMS OF REFERENCE</b>	<b>PROPOSED TERMS OF REFERENCE</b> <i>Revisions based on guidance from the 147th session of the Finance Committee are shown in italics</i>	<b>COMMENTARY</b> <i>Commentary on further revisions are shown in italics</i>
1. <u>Introduction</u>	1. <u>Purpose</u>	
1. 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:	<p>1.1 The Audit Committee serves as an expert advisory panel to assist the Director-General on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection and investigation functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.</p> <p>1.2 The Audit Committee provides information to the Governing Bodies in these areas, through its annual reports being made available, and the Chair or other designated member presenting on this report directly, to the Finance Committee.</p> <p>1.3 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</p>	<p>Change made to reflect a proposed broader advisory role of the Audit Committee, of which review of OIG operations remains key.</p> <p>Reflects the current arrangement where the focus is on advising the Director-General but with reports going to the Finance Committee.</p> <p>The AUD acronym in the old ToR is replaced with OIG throughout to reflect the approved change.</p>

		performance of the Office.	
	iv) 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;	DELETED	Streamline the document – This is covered under the more specific Responsibilities section that follows.
	v) Review progress in the implementation of AUD's action plans which have been agreed upon; and	DELETED	Streamline the document – This is covered under the more specific Responsibilities section that follows.
	vi) Take note of the reports of the External Auditor and monitor timely follow-up of his/her recommendations.	DELETED	Streamline the document – This is covered under the more specific Responsibilities section that follows.
2.	<u>Terms of Reference</u>	<u>2 Responsibilities</u>	Section re-titled, because the whole document is titled Terms of Reference.
	The Committee has the following responsibilities:	2.1 The Committee reviews and advises the Director-General on:	The responsibilities that follow this line are grouped into clusters in which some significant elements are highlighted without limiting the scope of the Committee to those elements.
		<ul style="list-style-type: none"> <li>a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of: <ul style="list-style-type: none"> <li>i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor;</li> <li>ii) the arrangements for the external audit of the Organization and their implementation;</li> <li>iii) the Organization's financial accounting and management policies; and the status of</li> </ul> </li> </ul>	Added in line with RIAS paper good practice example; "Oversight responsibilities include a) the integrity and appropriateness of financial and other reporting practices.

		improvement projects concerning financial systems and financial reporting.	
(c)  (e)	Review significant risks facing the organization.  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;	b) the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the organization, including consideration of: i) the Organization's improvement projects concerning internal controls and risk management; ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits.	Expanded to reflect the development of enterprise risk management in FAO.
		c) the Organization's policies to combat fraudulent, corrupt and collusive practices for its employees and external parties, including improper use of the Organizations resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.	Added in line with RIAS guidance. Already something subject to the AC's consideration in practice.
(a)	Ensure the independent role of the Office of the Inspector-General (AUD);	d) the effectiveness and efficiency of OIG's internal audit, inspection and investigation functions, and adherence to the Charter of the Office of the Inspector-General, the Guidelines on Internal Administrative Investigations and to applicable international internal auditing and investigation standards, including consideration of: i) the independent role of the Inspector-General and his/her Office; ii) the sufficiency of resources available for	Consolidates in more summarized form the related items in the current ToR relating to review of OIG.

		<p>OIG to meet the Organization's needs;</p> <p>iii) OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;</p> <p>iv) the adequacy of planned and actual internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed by OIG on high-risk areas;</p> <p>v) audit reports issued by OIG and the status of implementation by the Organization of the recommendations;</p> <p>vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings;</p> <p>vii) OIG's quarterly and annual reports.</p>	
(b)	Review and provide advice on the biennial work plans of AUD in the areas of audit and inspection;	DELETED	Combined in 2.1 d) above
(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;	DELETED	Combined in 2.1 d) above
(e)	Review the reports of AUD and monitor the timely implementation of the audit recommendations;	DELETED	Combined in 2.1 d) above
(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;	DELETED	Combined in 2.1 d) above

(g)	Review investigation findings of presumptive or actual mismanagement, irregularities and fraud, and monitor follow-up responsibilities;	DELETED	Combined in 2.1 d) above
(h)	Review the AUD annual activity report to the Director-General subsequently provided to the Finance Committee;	DELETED	Combined in 2.1 d) above
(i)	Review the performance and effectiveness of AUD, ensuring consistency with approved plans and the Charter of the Office of the Inspector-General;	DELETED	Combined in 2.1 d) above
(j)	Satisfy itself that the resources available for AUD are sufficient to meet the Organization's needs;	DELETED	Combined in 2.1 d) above
(k)	Provide advice to the Director-General and the Inspector-General as it deems appropriate; and	DELETED	Combined in 2.1 d) above
		2.2 The Committee establishes an annual plan to ensure the committee's responsibilities and stated objectives for the period are effectively addressed.	Added in line with RIAS guidance.
(l)	Submit its own annual report to the Director-General who will subsequently provide the FAO Finance Committee with a copy.	2.3 Submits an annual report on its activities for the Director-General who subsequently provides the FAO Finance Committee with a copy, together with any additional comments that the Director-General wishes to make on it.	Reflects that the Director-General may transmit the AC report to the FC with additional comments, which he has done for recent reports.
6.	<u>...and Authority</u>	<u>3 Authority</u>	
	... The Committee will have the authority to: viii) Obtain all necessary information and consult directly with the Inspector-	3.1 The Audit Committee has the authority to: a) obtain all necessary information and consult directly with the Inspector-	No change

	<p>General and his/her staff.</p> <p>ix) Access all reports and working papers produced by AUD.</p> <p>x) Seek any information it requires from any staff member and require all staff members to cooperate with any request made by the Committee.</p> <p>xi) Obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if considered necessary.</p>	<p>General and his/her staff;</p> <p>b) access all reports and working papers produced by OIG;</p> <p>c) seek any information from any staff member and require all staff to cooperate with any request made by the Audit Committee;</p> <p>d) obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary.</p>	
3.	<u>Composition of Committee</u>	<u>4. Membership</u>	
	The Committee consists of five external members and a Secretary <i>ex-officio</i> . All members and the secretary are appointed by the Director-General.	4.1 The Committee consists of five external members and a Secretary <i>ex-officio</i> . All members and the secretary are appointed by the Director-General.	No change.
		4.2 The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.	Added to reflect changes which have been implemented under the Immediate Plan of Action.
	Members are selected on the basis of their qualifications as senior audit and/or investigation professionals.	4.3 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.	Reflects the diversity considerations in the AC membership that have been considered in recent years.
		4.4 Members are independent of the FAO Secretariat and the Director-General. Former members of the FAO Secretariat are not appointed to the Audit Committee within a period of two years following the end of those responsibilities.	RIAS guidance refers to five year embargo on former members of management. The proposed version proposes two years.
		4.5 Members serve in their personal capacity and cannot be represented by alternate attendees.	

The Committee elects its own Chairperson.	4.6 The Committee elects its own Chairperson from within their number.	Additional wording to add precision.
The Inspector-General provides secretariat services to the Committee.	DELETED	replaced by Section 5 below
At the discretion of the Chairperson, the External Auditor may be invited to attend meetings of the Audit Committee.	DELETED	Incorporated in 6.8 below
4.	<u>Term of Office</u>	
Members serve for a two-year period, which may be renewed at the discretion of the Director-General for one or more years.	4.7 Members serve for a three-year period, which may be renewed for a maximum of three further years after the initial term, at the discretion of the Director-General. Members' terms of office are phased as much as possible so as to provide continuity. Renewal is subject to a positive assessment of the member's contribution during his or her first term.	Introduces both continuity and refreshment considerations in the AC membership. A term limit of five-six years is the recommended maximum in the RIAS paper.
5.	<u>Meetings</u>	
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.	6.1 At the discretion of the Chairperson, the Committee meets at least three times a year. Additional meetings may be called by the Chairperson if deemed appropriate. The Director-General, Inspector-General or External Auditor may request the Chairperson to call additional meetings if necessary.	Old 5(i) and (ii) combined and expanded.

ii) The Inspector-General has the right to request the Chairperson of the Committee to convene a meeting if necessary.	DELETED	Combined in 6.1 above.
	6.2 The members of the Audit Committee are normally given at least ten working days' notice of meetings.	Added to confirm appropriate practice concerning committee meetings.
	6.3 The Chairperson approves a provisional agenda for the meetings that should be circulated together with the invitations.	Added to confirm current and/or appropriate practice concerning committee meetings.
	6.4 Supporting documents are prepared by the Chairperson or by the Audit Committee Secretariat on the instruction of the Chairperson or on the Secretary's initiative. Documents may also be 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.	Added to confirm current and/or appropriate practice concerning committee meetings.
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.	6.5 The presence of all five members is expected at each meeting but meetings can take place with a quorum of three members. The Secretary to the meeting has no voting rights. The Audit Committee's decisions are usually taken by consensus but if this is not the case by the majority of the members present and voting. Should the votes be equally divided, the Chairperson has the casting vote.	Expanded
	6.6 The Chairperson or other Members may participate in a meeting by telephone or video conference link, during which time they are counted, the purpose of establishing a quorum.	Added to confirm current and/or appropriate practice concerning committee meetings.

		6.7 If the Chairperson is unable to attend a meeting, the other Members elect an Acting Chair for that meeting from among the members present.	Added to confirm current and/or appropriate practice concerning committee meetings.
		6.8 The Chairperson may invite OIG or other FAO staff, or the external auditor, to attend meetings.	Expands on an existing element in the ToR in old Section 3, now moved under this heading.
		6.9 The Audit Committee may decide to meet in closed session from time to time as determined by the Committee, or in private sessions with the Secretary, with management representatives or the representative of the external auditor.	Added to confirm current and/or appropriate practice concerning committee meetings.
		6.10 Minutes of meetings are prepared and kept by the Secretariat. The Audit Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.	Added to confirm current and/or appropriate practice concerning committee meetings.
		6.11 The deliberations of the Audit Committee and the minutes of its meetings are shared with the Director-General, the Cabinet and with OIG staff, but are otherwise confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with other FAO senior managers, or request the Secretariat to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.	Added to confirm current and/or appropriate practice concerning committee meetings.
		<u>7. Conflicts of Interest</u>	
		7.1 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	Added in line with RIAS guidance.

		for the consideration of this matter.	
		<b>8. Responsibilities and Liabilities of Members</b>	
		8.1 Members act in an independent, non-executive capacity while performing their advisory role on the Audit Committee. As such, members are not to be held personally liable for decisions taken by the Audit Committee acting as a whole.	Added in line with common practice for AC charters and RIAS guidance.
		8.2 Audit Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Audit Committee, so long as such activities were performed in good faith.	Added in line with RIAS guidance.
6.	<u>Reporting and ....</u>	<b>9. Reporting</b>	
	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.	9.1 The Committee reports to the Director-General and all reports of the Committee are addressed to him or her. The Audit Committee prepares an annual report on its work for the Director-General, which is presented to the Finance Committee each year along with any comments of the Director-General. The report includes an annual self-evaluation of the Committee's work. The Chairperson of the Audit Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.	Expanded, mainly to refer to inclusion of a self-evaluation in future annual reports.
		9.2 The Chairperson communicates with the Director-General's designated focal point on the results of the Committee's deliberations as well as on forthcoming issues relevant to its business.	Added to reflect current practice and expectations, and in line with RIAS guidance on effective communication with management.
		<b>10. Remuneration and Reimbursement of Costs</b>	
		10.1 Members are not remunerated by FAO for	Added in line with RIAS guidance for AC charter

	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.	to address terms and conditions of service.
	<u>11. Periodic Review of the Terms of Reference</u>	
	11.1 The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.	Added in line with RIAS guidance.

