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منظمة  
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# FINANCE COMMITTEE

**Hundred and Seventy-fifth Session**

**Rome, 18 - 22 March 2019**

**FAO Audit Committee - 2018 Annual Report**

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FC 175

### EXECUTIVE SUMMARY

- The Audit Committee is pleased to provide the Director-General and the Finance Committee with its 2018 Annual Report as foreseen in the revised Audit Committee Terms of Reference (MS 146 – App. C). The Terms of Reference also require the Audit Committee Chairperson or another member, as decided by the Audit Committee, to present the Annual Report to the Finance Committee.
- The Audit Committee recognizes the progress made in strengthening governance arrangements and, in particular, welcomes the issuance of a Statement of Internal Control by the Director-General along with the 2017 Financial Statements.
- The Audit Committee is pleased with the efforts made in tone at the top, in particular the improvement in Organization-wide communication of FAO's zero tolerance of fraud and corruption, as well as the efforts to combat harassment, sexual harassment, sexual exploitation and abuse.
- The Audit Committee reiterates its recommendation to end the amalgamation of the two functions of Ethics Officer and Ombudsman, which have different responsibilities, require different skills, are based on different standards, and present inherent conflicts of interest. The Finance Committee has reviewed the JIU report on whistleblower policies and practices and requested a report on the independence of FAO's Office of the Inspector General (OIG) and Ethics Office. The Audit Committee considers that such a report should be prepared by an external body to provide an independent view.
- The Annual Report concludes positively on the operation of OIG and its coordination with other oversight functions. The Audit Committee notes that eventually there were no impairments to the independence of OIG operations in 2018.
- The Audit Committee notes with appreciation the efforts taken by FAO management to address both internal and external audit recommendations and encourages continued efforts to reduce the time taken to close recommendations. Management update of actions on high-risk recommendations will be provided at the forthcoming Finance Committee.
- The Audit Committee is concerned that OIG workplans cannot be implemented within the proposed period due to lack of resources. The Committee recommends that FAO Governing Bodies revisit OIG audit and investigation resources, including posts. This will also allow the Organization to improve its response to demands related to sexual harassment and sexual exploitation and abuse.
- Finally, the Audit Committee would like to extend its appreciation to FAO management for arranging the Audit Committee's field visit to FAO Somalia and FAO Kenya. These field visits proved very useful for the Audit Committee in its understanding of FAO's strengths and challenges.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2018.

Draft Advice

**The Finance Committee takes note of the FAO Audit Committee's Annual Report for 2018 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 and reaffirmed its encouragement that the Director-General and the Audit Committee meet at least on an annual basis to underline the importance of its role and the advice provided; and**
- **looked forward to a further status report from management on the Audit Committee's recommendations at the next regular session of the Finance Committee in November 2019.**

## I. INTRODUCTION

1. As an independent advisory expert body, the FAO Audit Committee (the Committee) assists the Director-General and the Finance Committee on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection, investigation and ethics functions of the Organization. It accomplishes this by considering the work of the Office of the Inspector General (OIG), Office of Ethics and Ombudsman, other FAO oversight functions (Evaluation and External Audit) and management actions on OIG recommendations and investigation reports.
2. According to the Committee's Terms of Reference (Annex 2), the Committee prepares an annual report on its work containing advice, observations and recommendations, as appropriate for consideration by the Director-General and the Finance Committee. This Annual Report has been adapted to the Terms of Reference (ToR) as endorsed by the Council at its 159th session.
3. This sixteenth Audit Committee Annual Report provides an overview of its discussions and recommendations during 2018. The Committee met three times in 2018 and also conducted a field visit to FAO Offices in Kenya and Somalia.
4. The composition of the Committee during 2018 is provided in Annex 1.

## II. FUNCTIONING OF THE COMMITTEE

5. During the reporting period, the Committee convened in April, July and December 2018 at FAO headquarters, meeting over a two-day period each time. Ms Lesetedi was the Chairperson in 2018; the Committee elected Mr Verasak Liengsrirawat as Chairperson from 2019. In 2018, a new member, Mr Gianfranco Cariola, joined the Committee following the Council's 158th meeting.
6. The Committee commends OIG for the effective secretariat services provided during the year in support of the scheduled meetings and the field visit, as well as between sessions.
7. The Committee is pleased to report continuing good engagement with the Ombudsman/Ethics Officer (EO). The Committee was briefed on the external audit and ethics workplans, progress and results via reports or in person at its meetings.
8. To help inform its work, the Committee has received regular updates on Organizational developments and management perspectives from the Deputy Director-Generals (DDG) Operations and Programme and other members of Senior Management at each meeting. The Committee also received briefings from the ADGs Fisheries, Forestry and Economic and Social Departments on the risks and challenges facing their areas of work. However, the Committee did not meet with the Director-General in 2018. The Committee reiterates the importance of direct engagement with the Director-General.
9. While identifying some areas for further attention, the Committee concludes that it has discharged its duties in accordance with its revised ToR. The Committee conducted a self-assessment of its work in line with best practices. While the conclusion was that overall the Committee's performance was adequate and in line with its current ToR and best practices, there was room for improvement in terms of more visibility, interacting with all stakeholders and continuing to raise the high-level risks, governance and controls including issues arising from ethics and investigations which need attention to the Director-General and Senior Management.
10. The Committee noted with satisfaction that the 159th Council had endorsed the changes recommended by the Committee to its ToR, mainly: the modified scope to include the Ethics programme and the coordinating role of the oversight functions; modified reporting lines with the

Annual Report submitted directly to the Finance Committee; strengthened independence over appointments and renewal of members being decided by the Council; and the Audit Committee providing an opinion on the appointment and dismissal of the Inspector General.

11. The Committee noted the Finance Committee's request to receive a report after each Audit Committee session and this practice began in 2018, with reports submitted after its July and December meetings.

12. The Committee noted with satisfaction that future selections of Audit Committee members will be advertised to provide a more transparent and competitive process, and that a selection panel will be established to choose between the best available candidates with due regard to geographic and gender balance.

### **III. COMMITTEE FIELD VISIT**

13. The Committee recognised the need and the benefits to be gained from visiting Regional and Country Offices to improve its understanding of FAO operations in the field. The trip was organized from 17–21 September 2018 and its focus was to gain knowledge of FAO's field operations and to learn more about the challenges and opportunities faced by Country Offices in conducting their work. The Committee visited FAO Representations in Kenya and Somalia. In addition to meetings and discussions with FAO colleagues from both offices, the Committee visited projects in Tharaka-Nithi county and Hargeisa. Committee members also met with national and local government partners, implementing partners and donors.

14. The Committee noted that FAO and its mission is highly regarded and appreciated by the governments both at the central and local government levels. The beneficiaries of FAO programmes appreciated the input provided by FAO Country Offices and through its partners. It is clear that in the field, FAO is its staff at all levels. They are the face of the Organization and as such the means through which FAO can achieve its goals. This is true for both staff and non-staff who are dedicated, professional and motivated to serve project beneficiaries.

15. The Committee noted a number of issues that need to be addressed to improve field operations in areas such as: centralized review and approval of some transactions by FAO headquarters; planning and coordination processes; project implementation and monitoring; control environment; Human Resources; cash and vouchers for work scheme; and money vendor management. The Committee expressed concern about the regulations surrounding the identification of beneficiaries; the counterparts risks within the cash and voucher scheme which present a reputational risk; and that the delegation of authority levels at Decentralized Offices (DOs) should be realistic. All observations were constructively discussed with the respective FAO Representatives (FAORs) and their staff.

16. The Committee gained valuable insights during the trip, which will assist in the overall performance of the Audit Committee's oversight role and will enhance its decision making at its meetings and encourages similar trips in the future.

### **IV. KEY MESSAGES AND CONCLUSIONS FROM THE AUDIT COMMITTEE'S 2018 WORK**

17. The key messages and conclusions from the Committee's work during 2018 are summarized below. Further detail is provided in later sections of this Report, organized according to the five broad areas established in the Committee's revised ToR. The Committee:

- noted the outcome of the 159th Council and appreciated that the Committee's recommendations in relation to its ToR had been adopted;

- welcomed the External Auditor's issuance of an unmodified opinion on the 2017 Financial Statements, and encouraged the Organization to review the risks and gaps in controls identified;
- appreciated the issuance of the Statement of Internal Control, while noting room for improvement, and underlined the importance for the Organization of working simultaneously on assessing risks and identifying controls to mitigate those risks;
- informed management of the results of the Audit Committee's self-assessment survey, highlighting the need for amendments in some of the evaluating criteria;
- welcomed the Organization's action plan on addressing sexual exploitation and abuse (SEA) and sexual harassment (SH), but stressed the need to: clarify definitions and separate the action plans for SEA and SH to ensure accountability and clarity, and to consider the long-term consequences, including on resources, of some of the measures being proposed;
- commended the Organization for its proactive efforts and recommendations dashboard which have led to better follow-up of audit recommendations, but also urged management to close long-outstanding recommendations. It expressed concern that the results of OIG's audits linked deficiencies directly to the lack of capacity within DOs and encouraged Senior Management to review solutions for improvement considering rationalization and consolidation of activities;
- appreciated the update from OHR and its acceptance of the internal audit recommendations and development of an action plan, and therefore looks forward to feedback on actual implementation of the plan;
- reiterated its concerns that the amalgamation of the Ombudsman and Ethics Officer functions, which have different responsibilities, require different skills and are based on different standards, presents an inherent conflict of interest;
- was grateful for management's efforts in filling OIG vacant professional positions, but expressed concern that the resources available for OIG to conduct its missions may not now be sufficient as required in a decentralized organization;
- welcomed changes to Manual Section (MS) 330 to remedy the conflict of interest in the disciplinary procedures for P4 staff and below where the same person was responsible for the recommendation and decision. The Committee looked forward to amendments to other policies and guidelines on investigations and disciplinary procedures to bring them in line with the revised MS 330;
- while noting that there were no impairments to the independence of OIG operations in 2018, recommends reinforcing the perception of independence with improved travel arrangements;
- considered that OIG is delivering its services adequately and effectively, including implementing a Quality Assurance Improvement Programme; and
- raised its concern that it was unable to meet with the External Auditor in its April and December 2018 meetings, highlighting that as part of strengthening oversight such meetings are critical.

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

18. During 2018, the Committee received briefings at each of its meetings from staff from the Finance Division, the Chief Information Officer, the Inspector General and the External Auditor on the enterprise resource programme (ERP), the Financial Statements, the Organization's liquidity position, its investments, continued use of the International Public Sector Accounting Standards (IPSAS) and monitoring of financial controls in DOs. Committee meetings provided an opportunity for the Organization to systematically report on the status of actions taken on identified risks and on recommendations from the oversight functions. The Committee was provided with an opportunity to review the draft 2017 Financial Statements and made minimal suggestions, welcoming their finalization with an unmodified external audit opinion. The Committee reiterated that it would like to hear more on how IPSAS statements have improved data gathering, compliance and decision making.

19. The Committee appreciated the efforts to produce a Statement of Internal Control with the Financial Statements, but encouraged management to focus on strengthening risk management as the basis for improving internal control.

20. With regard to the Organization's After Service Medical Coverage liabilities, the Committee remains concerned that no lasting solution has been found within the UN system and recommends that FAO consider alternative solutions.

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

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

21. The Committee appreciated the Organization's continuing efforts to emphasize accountability for the timely implementation of agreed audit recommendations to better manage the Organization's risks. While there continues to be some year-to-year variation in overall implementation rates of OIG internal audit recommendations, the Committee notes that in aggregate management had, by the end of 2018, reached an 87 percent implementation result (compared to a 90 percent implementation target for 2019) of recommendations outstanding for more than two years. The Committee appreciated the improvements in implementing risk-assessment plans and the rate of implementing audit recommendations.

22. The Committee commended the Organization for its proactive efforts and recommendations dashboard which have led to better follow-up of audit recommendations. For clarity, on overdue recommendations, the Committee advised that original implementation dates agreed with OIG should continue to be reported as well as the revised dates of implementation proposed by management.

23. The Committee expressed satisfaction on the closing of long-outstanding OIG audit recommendations addressing high-risk areas.

24. The Committee also reviewed with interest the internal audit reports issued in 2018. The Committee wishes to draw management's attention to high-risk findings made in some of the reports.

25. The Committee noted that serious internal control gaps were observed in offices that have been without an FAOR for long periods of time (Venezuela and Rwanda). While the position of FAOR in Rwanda has now been filled, the FAOR position in Venezuela remained vacant since September 2017 and the Committee urged that vacant FAOR positions be filled as a matter of priority. As a consequence of internal control gaps, OIG observed a diversion of funds valued at USD 30 000 in Rwanda.

26. On data protection and privacy, while noting that the Organization may not be subject to the newly applicable European Union General Data Protection Regulation (GDPR), the Committee looked forward to FAO designing and implementing best standards policies as may be required by Member States and donors.

27. As regards inspection of goods and services, and procurement in general, the Committee was concerned that principles of transparency and competition still needed to be enforced. The Committee noted that some policies and procedures are obsolete and need to be updated, and urged the Organization to implement periodic updates.

28. Following a presentation from the Chief Information Officer (CIO) on information technology security and the positive developments in that field, the Committee was alarmed to learn that 75 percent of current FAO applications are based on old technology, which poses a serious threat to security.

29. Finally, the Committee draws management's attention to the need to address (a) the result of the survey, on the use of rosters to fill the vacant posts, where 65 percent of the hiring

managers/supervisors believed that staff members appointed through a roster were not qualified to perform for job; and (b) the recommendations from the audit report on recruitment.

30. Further details can be found in OIG's 2018 Annual Report, including information provided by FAO management.

### **B. External Audit Recommendations**

31. In 2018, the Committee continued to review the external audit management letters and report.

32. The Committee raises its concern that it was unable to meet with the External Auditors at its April and December 2018 meetings, highlighting that as part of strengthening the oversight function such meetings are critical. The Committee also encouraged auditors to avoid overlap in the work of the Organization's oversight functions to reduce expenditure and to promote the exchange of plans and information for possible combined work in the future.

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

33. The Committee welcomed the issuance of a Statement of Internal Control with the 2017 Financial Statements. The Committee recommended the use of indicators/systems to evaluate the reliability of the Internal Control questionnaires used to prepare the Statement of Internal Control. The Committee looks forward to being appraised of further developments, more specifically on the upcoming updated corporate risk log and the deployment of unit risk registers.

34. The Committee noted that overall risk analysis at the corporate level exists, however at the regional and local levels it remains an area of concern and further efforts need to be made. The Committee encouraged the Organization to review combined assurance in order to consolidate or integrate assurance activities, allocate responsibilities appropriately and avoid gaps and duplications. Combined assurance will optimize the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the Organization.

### **D. Results Focus**

35. Recognizing 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 Management so that the intended benefits of a more results-focused approach to management and accountability are obtained and maintained. The Committee appreciated the efforts made on implementing risk management, but stressed that full ERM needs to be put in place.

### **E. Human Resources (HR) Management**

36. In 2018, the Committee reviewed the challenges in HR management related to the geographical balance of professional staff and consultants, the development of a new recruitment platform, gender parity, staff performance, an action plan to change organizational culture, and the updating of HR policies.

37. The Committee underlined the importance of controls in the recruitment phase such as the United Nations Global Marketplace (UNGM) sanctions list, to avoid risks connected to blacklisted candidates.

38. The Committee welcomed changes to MS 330 to remedy the conflict of interest in the disciplinary procedures for P4 staff and below where the same person was responsible for the recommendation and decision. The Committee looked forward to amendments to other policies and guidelines on investigations and disciplinary procedures to bring them in line with the revised MS 330.



39. The Committee noted the absence of a defined timeframe for processing disciplinary measures between the closure of an investigation and the final decision on the case. The Committee therefore recommended the formulation of a key performance indicator (KPI) to avoid potential risks to the Organization in not providing timely follow-up to the investigation process.

#### **F. Sexual Harassment (SH) and Sexual Exploitation and Abuse (SEA)**

40. The Committee expressed concern about the current situation of SEA in the UN System and in the under-reporting of issues. The Committee considers that the results of the UN and FAO wide survey on SH will help inform the Organization of the scope of the problem of under-reporting and how to address it. The Committee welcomed the Organization's action plan on SEA and SH, but stressed the need to: clarify definitions and separate the action plans for SEA and SH to ensure accountability and clarity; and to consider the long-term consequences of some of the measures being proposed, especially in relation to resources.

41. The Committee suggested that the SEA/SH policies be updated following the conclusions of the Chief Executives Board (CEB)'s task force.

42. The Committee reiterated the potential high risks in selecting the Ombudsman/Ethics Officer as focal point of the PSEA policy, due to conflicts of interest noted in combining his two functions.

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

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

43. The Committee was not updated on VSC activities in 2018. The Committee requested a regular agenda item for a representative from the Vendor Sanctions Committee (VSC) to attend the Audit Committee in 2019 and requested a lessons learned report.

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

44. The Committee was satisfied to note that the two actions on fraud prevention and detection arising from the JIU report – development of an anti-fraud strategy and action plan – were in the process of implementation and that the strategy was based on three pillars: awareness and training; policies and procedures should be risk conscious; and the ability of systems and tools to monitor and detect fraud. The Committee noted that training programmes were now available on the FAO intranet following efforts made by OIG. On monitoring, the Organization was rolling out a tool for DOs to enter and monitor their fraud plans. The Committee took note of the establishment of a small unit within DDO on internal control and compliance, including fraud prevention matters.

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

45. 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. In the very few instances (three) in 2018 where the complainant raised concerns of retaliation, the Organization responded promptly and appropriately.

46. The Finance Committee has reviewed the JIU report on whistleblower policies and practices and requested a report on the independence of FAO's OIG and Ethics Office. The Committee considers that such a report should be prepared by an external body to provide an independent view.

## **D. Evaluation**

47. The Committee noted with satisfaction that the Office of Evaluation Division (OED) and OIG coordinate their annual plans at least once a year and focal points compare plans to avoid overlap in a negative manner, coordinating regularly with regional auditors about missions and schedules, and exchanging and sharing reports between the two functions.

## **VIII. IMPLEMENTATION OF THE ORGANIZATION'S ETHICS PROGRAMME**

### **A. Annual Reports referred to the Committee by the Ombudsman and Ethics Office**

48. In line with its revised ToR, the Committee requested that the Ethics Officer's Annual Report be shared with the Committee prior to its issuance to the Finance Committee. The Committee will share its views on the Ethics Officer's Annual Report in a separate note to the Finance Committee.

### **B. Main individual components of the Ethics programme, including any relevant policies, regulations, rules and training**

49. The Committee reaffirmed its concern about the role of Ombudsman/EO, which does not follow good practice as it presents a conflict of interest between the two functions. This was clearly demonstrated in the Ombudsman/EO's presentation to the Audit Committee, and again highlighted the high reputational risk for the Organization in merging these two conflicting roles. The Committee draws FAO's attention to another JIU review (in addition to the JIU review on conflict of interest mentioned in its 2017 Annual Report), the Review of Whistle-Blower Policies and Practices in UN System Organizations which states "Another challenge to independence is the dual function performed by the ethics officer of the Food and Agriculture Organization of the United Nations (FAO) (who also serves as the ombudsman), (...). The dual functioning of ombudsmen or ethics or oversight officers could potentially leave staff vulnerable and put the functions at risk of losing credibility and staff confidence. The Inspectors call for re-examinations of the dual functioning of these particular positions to ensure their independence and integrity"<sup>1</sup>. In addition, the Committee was made aware of several cases of conflict of interest between the Ethics and Ombudsman functions.

### **C. The Organization's financial disclosure programme (FDP) or programmes aimed at preventing or addressing conflict of interest**

50. The Committee was informed that the FDP should have been finalized by the end of November, however it was still ongoing in December due to the time taken by the external reviewer and the time needed to collect the information. The FDP had been launched June–September, but was reopened to allow people to participate. The Committee reiterated the need for spot checks and recommended that these should be established and be carried out on a regular basis.

51. The Committee recommended issuing a policy on Conflict of Interest (CoI) for all FAO personnel to be aware of and understand the CoI definition.

### **D. The adequacy of resources to effectively carry out its ethics responsibilities**

52. The Committee reviewed the functioning of the Ethics Office and expressed its concern about the understaffing of the Office and suggested that the Organization review its structure.

53. The Committee further noted that training programmes, a core mission for the Ethics Officer, were impacted by lack of resources. Of the planned face-to-face training sessions, nine had taken place

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<sup>1</sup>JIU/REP/2018/4 – page vi, section III

due to time constraints, workload in the office and the restrictions in FAO's budget at the end of the year. Of the 15 video conferences planned, only 11 were conducted due to time constraints, but the two planned training sessions on ethics in Latin America had been achieved. Sixteen FAOR briefing sessions were undertaken and the Ombudsman/EO had collaborated in the preparation of some e-learning courses with OIG and OHR.

## **IX. EFFECTIVENESS OF OIG FUNCTIONS**

54. 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 results of past external assessments of audit and investigation functions; the positive results of OIG's recent external quality assessment of the Internal Audit Quality Assurance Improvement programme; and the briefings provided by FAO management and the External Auditor, the Committee considers that OIG is delivering its services adequately and effectively. The Organization should however consider increasing the level of resources, including the number of posts in the office, for both the audit and investigation functions (see paragraph 60, below).

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

55. The Committee regularly assesses OIG's risk-based planning methodology. The risk-based approach helps to ensure that OIG's assurance and advice are focused on important areas of the Organization on a systematic basis. The Committee found this was evidenced by the topics OIG reported on during the year. The Committee noted that by the end of 2018, OIG had achieved a substantial part of its planned biennial audit coverage as indicated in OIG's 2018 Annual Report, notwithstanding auditor vacancies during the year and with some reporting carrying over into 2019.

### **B. Investigative Functions**

56. The Committee appreciates the efforts made by the Investigation unit in 2018, despite an increased number of complaints, to manage its caseload, respond to the need for policy inputs and deliver e-learning materials.

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

57. In April 2011, the FAO Council approved an OIG report disclosure policy that makes internal audit reports and reports of lessons learned from investigations available to Permanent Representatives, or their designates, via a secure internet connection. The Committee welcomed OIG's smooth implementation of the policy, with all eight requests for remote online viewing received from one Member State met as required in the policy well within stipulated periods. There were no instances of reports being withheld and only one instance where the report was redacted for confidentiality and security purposes.

### **D. OIG staffing and budget**

58. The Committee noted that during 2018 OIG had been proactive in managing its budget through the use of consultancies to backfill vacancies and provide additional technical expertise, and to ensure audit coverage and investigative caseload requirements were met despite staff vacancies.

59. The Committee is grateful for management's efforts in filling OIG's vacant professional positions, but expressed concern that the budget now available is insufficient for OIG to conduct its work as needed in a decentralized organization. Until now, OIG has compensated its insufficient non-staff resources using the savings from staff vacancies.

60. The Committee is concerned that OIG workplans cannot be implemented within the proposed period due to the lack of resources. Audits in 2018 were carried over to the following year and

investigations delayed because of insufficient resources. The Committee recommends that FAO Governing Bodies add resources to OIG audit and investigation functions. This will also allow the Organization to improve its response to demands related to SH and SEA.

#### **E. External Quality Assessment**

61. The Committee looks forward to reviewing the results of the independent external quality assessment of the investigation function to be conducted in the second quarter of 2019.

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

62. The Committee reviewed the implementation status of the nine prior recommendations from its Annual Reports that remained outstanding following the 173rd meeting of the Finance Committee, taking into account the further updates provided by management and OIG. As indicated in Annex 3, the Committee considers four recommendations as implemented on the basis that actions are now taking place on an ongoing basis and the other five as being in progress. These will continue to be monitored by the Committee during 2019.

### **XI. ACKNOWLEDGEMENT**

63. The Committee acknowledges the good cooperation and assistance received from management, the Inspector General and his staff, Ombudsman/Ethics Officer, Director of the Office of Evaluation Division, other FAO staff and the External Auditor who provided information briefings during its 2018 meetings

## ANNEX 1

### COMPOSITION OF THE COMMITTEE

Following a recommendation from the former External Auditor and in accordance with FAO's commitment to the 100<sup>th</sup> 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.

In accordance with the Immediate Plan of Action (IPA) for FAO Renewal (2009-11), adopted by the Conference at its 35th (Special) Session, "the 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 and 2018 updates of the Committee's Terms of Reference reflect this.

The Committee is composed of five members. The Committee's composition in 2018 was as follows:

Members:	Ms L. Lesetedi (Chair)
	Mr J. M. Portal
	Ms E. Quinones
	Mr V. Liengsriwat (Vice-Chair)
	Mr G. Cariola
Secretary (ex-officio)	Inspector General

## ANNEX 2

### Manual Section 146 – APPENDIX C FAO's AUDIT COMMITTEE TERMS OF REFERENCE

#### 1. Purpose

1.1 The Audit Committee serves as an expert advisory panel to assist the Director General and the Finance Committee on the internal control arrangements, risk management processes, financial reporting and internal audit, inspection, investigation and ethics functions of the Organization. The Audit Committee advises on these matters taking into consideration the Financial Rules and Regulations as well as policies and procedures applicable to FAO, and its operating environment.

1.2 The Audit Committee provides advice and information to the Governing Bodies in these areas, through its annual reports and as appropriate, updates to the Finance Committee during the intervening period.

1.3 With regard to internal audit, inspection, investigation, and ethics, the Committee operates in an advisory capacity to the Office of the Inspector General (OIG) and the Ombudsman/Ethics Office (EO) respectively. As such it assists the Inspector General and the Ombudsman/ Ethics Officer with regard to ongoing quality of performance of these functions.

#### 2. Responsibilities

2.1 The Committee reviews and advises the Director General and the Finance Committee on:

- a) policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:
  - i) the Organization's financial statements, and the results of external audits of the financial statements as documented in the audit opinion and management letters of the external auditor;
  - ii) the arrangements for the external audit of the Organization and their implementation;
  - iii) the Organization's financial accounting and management policies; and the status of improvement projects concerning financial systems and financial reporting.
- 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.
- c) the Organization's policies to combat fraudulent, corrupt and collusive practices of its employees and external parties, including improper use of the Organization's resources, and the arrangements for employees and external parties to raise concerns, in confidence, about wrongdoing in the management and conduct of operations.
- 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 OIG to meet the Organization's needs;
  - iii) OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;
  - 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 in coordination with the external auditor;
  - v) audit reports issued by OIG and the status of implementation of the recommendations by the Organization;
  - vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions taken by the Organization on the findings;
  - vii) OIG's quarterly and annual reports;
  - viii) changes to the OIG charter and operational manuals required to maintain alignment with Organizational and professional practices;
  - ix) proposals of the Organization to recruit, terminate or not renew the appointment of an Inspector General.
- e) All matters pertaining to the formulation, development and implementation of the Organization's ethics programme, including:
- i) the ethics activities of the Ombudsman/Ethics Officer on the basis of annual reports referred to the Committee by the Ombudsman and Ethics Office;
  - ii) the main individual components of the ethics programme, including any relevant policies, regulations and rules, and training;
  - iii) the Organization's financial disclosure programme or programmes aimed at preventing or addressing conflict of interest;
  - iv) the adequacy of resources to effectively carry out its ethics responsibilities.

2.2 The Committee ensures that there is proper coordination of oversight activities between internal and external audit functions. While doing so the Committee does not interfere with the respective mandate and independence of the different functions.

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

2.4 Submits an annual report on its activities to the Finance Committee and the Director-General who may provide comments on the report as desired.

### **3. Authority**

3.1 The Audit Committee has the authority to:

- obtain all necessary information and consult directly with the Inspector General and the Ombudsman/Ethics Officer and their respective 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.

#### **4. Membership**

4.1 The Committee consists of five external members and a Secretary ex-officio. All members are appointed by the Council on recommendation of the Finance Committee following a selection process managed by the Director General.

4.2 Members are selected on the basis of their qualifications and relevant experience at senior level in the areas of: oversight including audit, investigation and ethics, financial management, governance, risk and controls. Due regard is paid in their selection to gender and geographic representation in the Committee.

4.3 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 five years following the end of those responsibilities.

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

4.5 The Committee elects its own Chairperson from within its members.

4.6 Members serve for a three-year period, which may be renewed for a maximum of three further years after the initial term by a decision of the Council. Members' terms of office are phased as much as possible so as to provide continuity. Renewal is subject to a positive assessment of the member's contribution during his or her first term.

#### **5. Secretariat**

5.1 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.

#### **6. Meetings**

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, Ombudsman/Ethics Officer or External Auditor may request the Chairperson to call additional meetings if necessary.

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

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

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.

6.5 The presence of all five members is expected at each meeting but meetings can take place with a quorum of three members. The Secretary to the meeting has no voting rights. The Audit Committee's



decisions are usually taken by consensus but if this is not the case by the majority of the members present and voting. Should the votes be equally divided, the Chairperson has the casting vote.

6.6 The Chairperson or other Members may participate in a meeting by telephone or video conference link, during which time they are counted, the purpose of establishing a quorum.

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

6.8 The Chairperson may invite OIG, the Ombudsman/EO or other FAO staff to attend meetings. The Chairperson may also invite the external auditor to attend meetings.

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. The Committee shall meet at least once a year in private sessions with the IG, and the Ombudsman/EO. The Committee shall also meet with the External Auditor in a private session at least once a year.

6.10 Minutes of meetings are prepared and kept by the Audit Committee Secretary. The Audit Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.

6.11 The deliberations of the Audit Committee and the minutes of its meetings are confidential unless decided by the Chairperson. The Chairperson may agree to share all or relevant parts of the minutes with the Director-General, the Ombudsman/EO the OIG staff and other FAO senior managers, or request the Audit Committee Secretary to provide summaries of decisions, for the purpose of follow up action by FAO senior managers.

## **7. Conflicts of Interest**

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 for the consideration of this matter.

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

8.1 Members act in an independent, non-executive capacity while performing their advisory role on the Audit Committee. As such, members are not to be held personally liable for decisions taken by the Audit Committee acting as a whole.

8.2 Audit Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Audit Committee, so long as such activities were performed in good faith.

## **9. Reporting**

9.1 The Committee shall submit reports to the Director General and the Finance Committee. The Audit Committee prepares an annual report on its work containing advice, observations and recommendations, as appropriate for consideration by the Director General and the Finance Committee. The report includes an annual self-assessment of the Committee's work. The report provides the Committee's views regarding how OIG addresses identified high-risk areas through its plan and the adequacy of its budget to carry out the said plan. The report also provides the Committee's views on the annual OIG report including its statement of independence. 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.

9.2 The Chairperson communicates with the Director-General's designated focal point on the results of the Committee's deliberations, if not deemed confidential, as well as on forthcoming issues relevant to its business.

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

10.1 Members are not remunerated by FAO for activities undertaken with respect to their membership of the Audit Committee. FAO reimburses Committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.

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

11.1 The Committee periodically, and at least every three years, reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director General and the Finance Committee for subsequent submission to the Council for decision.

## ANNEX 3

## STATUS OF AUDIT COMMITTEE RECOMMENDATIONS

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status <sup>2</sup>	Management Comments
1. 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.	2015 report para 22	DDO/OHR/EO	Implemented	<p>Important steps have been taken to strengthen the internal control environment in FAO, In particular training/orientation of staff. Such elements were part of the internal control reporting implemented as of 2017 and the on-going strengthening of the implementation of risk management (risk identification, assessment and reporting) with a gradual roll-out of over 2018 and 2019. Also, the Anti-fraud strategy and action plan was released, which focuses in particular on increasing awareness about key fraud related policies (zero-tolerance and whistleblower protection) and procedures along functional areas of responsibilities. Other elements aim at ensuring that the policies and procedures address the risks as well as ensuring availability of systems and tools to help us monitor and detect issues. Training and orientation of staff is given prominence; these include:</p> <p>A mandatory video was released to raise awareness of all personnel on “Prevention of Harassment, Sexual Harassment and Abuse of Authority” (in English, French and Spanish through you@fao). Compliance as of 21 January 2019 was 97 percent staff members and 82 percent NSHR). Also, a more extensive online training course is currently under development with OHR and an awareness video on ‘Whistleblower Protection’ which will become mandatory as of 2019</p>

<sup>2</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”.

					<p>An e-learning course Prevention of fraud and other corrupt practices released in January 2019 aims to increase the awareness of all FAO employees regarding the zero-tolerance Policy against fraud, how to identify potential instances of fraud, how to help prevent and detect fraud, how to report it, and what happens when fraud is uncovered. This course is mandatory for all staff.</p> <p>An Internal Control e-learning course released end 2018 provides an introduction to the concept of internal control and the different components of a sound internal control system. It also provides concrete examples of situations where internal control can make the difference towards achieving the objectives of FAO's work.</p> <p>FAO is currently reviewing/updating Manual Section 502 "Procurement of Goods and Services" to reflect the new default method for procurement at FAO through public process, a recognized best practice. E-tendering will be the default system for collecting bids/proposals and this method should significantly strengthen controls around the procurement process and rectify a number of findings raised in recent OIG reports (as at December 2018, 114 countries had been trained on the use of e-tendering).</p> <p>The Organization plans to release the revised MS502 in early 2019. This will go a long way to ensuring that FAO's procurement process has the necessary internal controls to both prevent and detect fraud as well as other corrupt practices.</p> <p>The UN course on Working Together Harmoniously was adapted for FAO and made available in English to all employees in November 2018. The course raises awareness on FAO's zero tolerance of work place harassment and prohibited conduct. French and Spanish versions of the course will be made available during 2019.</p> <p>FAORs and FAO Liaison Offices were individually contacted and informed of how the Ethics Office can help in increasing knowledge and raising awareness regarding organizational ethics. The Ombudsman and Ethics Officer was invited to address Regional Management Meetings (involving FAORs, Subregional</p>
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					Representatives, and Senior Managers) (e.g. the RAP Management Meeting in November 2018 and the REU Management Meeting scheduled for January 2019. Meetings were held with technical staff and designated regional focal points in 2018 and scheduled to continue in 2019. Regular meetings are held with OSD (three in 2018) on the best way to address any ethics issues detected in country offices and collaboration with OIG has been increased to address issues identified by auditors and to improve the quality of the training package, using examples shared by investigators. The Ethics Office continues to refer cases to OIG and to include OIG in training sessions.
2.	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.	2015 report para. 25	CSAP/VSC/OIG	Action in progress	Administrative Circular 2014/27 on the Vendor Sanctions Committee (VSC) has been revised. The VSC reviewed fourteen cases since its establishment and lessons learned so far were applied to the revision of Manual Section 502 on Procurement of Goods and Services which contains a new and considerably improved section on vendor management. Furthermore, FAO is drafting the first Vendor Sanctions Policy in the UN system (also based on lessons learned from the fourteen cases reviewed by the VSC). The vendor Sanctions Policy will be finalized and published in the second half of 2019. As highlighted in Recommendation 1 above, with the release of the updated MS502 and implementation of recognized best practices, FAO's procurement process will encompass the necessary internal controls to both prevent and detect fraud as well as other corrupt practices.
3.	The Committee recommended that the training of non-staff HR (NSHR) is improved, in particular introducing mandatory and monitored training on ethics and standards of conduct related	2016 report, para.23	OHR/ Ethics Office	Implemented	As indicated in Recommendation 1 above, training for NSHR on ethics and standards of conduct is being addressed as part of an overall training effort for all employees. In particular, OHR is developing an awareness video on 'Whistleblower Protection' which will become mandatory as of 2019. The Ombudsman/Ethics Office and OIG are contributing to the projects. The UN course on

	requirements for those NSHR staff entrusted with critical functions.				Working Together Harmoniously, which was adapted for FAO, is mandatory as of 2019.
4.	The Audit Committee recommends reviewing the amalgamation of the two functions of Ethics Officer and Ombudsman, functions which have different responsibilities, require different skills and are based on different standards.	2016 report, para.27	ODG/LEG/ DDO	Ongoing	The DG has communicated in his reply to the Chair of AC dated 6 February 2019 on the functions of Ethics and Ombudsman that "it is the intention of Management to propose that they no longer be discharged under the same post in light of the workload of the current incumbent.
5.	The Committee recommends that travel arrangements for the Inspector General be left to the appreciation of the Inspector General on substantive matters within the authority of FAO's travel rules.	2016 report, para.34	ODG	Ongoing	In order to continue pursuing the Organization's goals of efficiency savings and cost containment, travel policy and rules should be maintained at corporate level. However, there are generally no restrictions on travel by OIG staff.
6.	The Committee recommends to reinforce the perception of independence of OIG Operations with improved travel arrangements.	2017 report, para. 13	ODG	Ongoing	The above refers.
7.	The Committee recommended that capping reports agreed actions/recommendations for field offices be implemented.	2017 report, para. 13	OSD/DDO	Implemented	The Audit dashboard (developed in June 2017 and regularly fine-tuned as part of the Integrated Management Information System [iMIS]) has proved to be instrumental in promoting/enforcing close monitoring of implementation progress of specific recommendations by DDG(O), Regional Offices and FAORs, as well as by business owners (a number of follow-up actions are specific to owners of business areas/processes such as travel, procurement, HR, etc.) and/or OSD. As of January 2019, there were a total of 15 outstanding recommendations (including those from 2018 reports) of which

					<p>four overdue and action is being taken to ensure their closure). The number of outstanding recommendations has decreased from 18 in June 2018 to 15 in January 2019; and action is being taken to ensure closure of those remaining</p> <p>Regular Operational Arm Meetings (chaired by DDG(O), with the participation of OSD, ADGs/RRs and key stakeholders) provide a forum for the review of issues for field offices, including progress against outstanding agreed actions. Additional initiatives, such as the Think Labs, recently initiated by OSD, allow country offices to discuss specific issues/concerns and draw on lessons learned/best practices in resolving them.</p> <p>More formal reporting such as contained in the Internal Control Framework, iMIS and the FAOR Assessment monitoring tool, are additional ways for OSD and the business process owners to track progress against the responsibilities of FAORs. They also capture further issues arising from DOs.</p> <p>The revised Fraud Prevention Plan for Country Offices, launched end January 2019, will allow improved oversight over office management and actions taken to reduce fraud related risks and strengthen internal controls. This will be followed by a similar process to be implemented throughout headquarters</p>
8.	The Committee recommends that FAO consider alternative solutions with regard to the Organization's After Service Medical Coverage liabilities.	2017 report, para. 16	CSF	Ongoing	<p>At its 173<sup>rd</sup> Session in November 2018, the Finance Committee "recalled that the underfunding of the After Service Medical Coverage (ASMC) liabilities had been discussed by the Committee during its previous sessions when it had emphasized the importance of adopting a common approach amongst the members of the United Nations Common System on this matter and encouraged the Secretariat's participation in the UN Common System's search for a solution into this issue" (CL 160/4, para 8d). The Finance Committee will be presented with the updated results of the actuarial valuation of the Organization's liabilities for staff-related plans as at 31 December 2018 at its upcoming session in</p>

					<p>March 2019, including the latest funding situation of the ASMC liability.</p> <p>Management continues to draw the attention of the Governing Bodies to this matter, including presenting regular documents providing updated information on the size of the liabilities, options to address the funding gap of the ASMC Liability, the ongoing discussions within the United Nations System on this matter, and on activities aimed at containing the costs of the current medical insurance plan.</p>
9.	Informed that the AC would be making a formal proposal relating to MS 330 to remedy the conflict of interest in the disciplinary procedures for P4 staff and below where currently the same person is responsible for the recommendation and decision.	49th Session of FAO Audit Committee, Item 6	AC	Implemented	<p>Manual Section 330 was updated in December 2018 (see extract below).</p> <p>“330.1.4 Responsibility for Imposition  330.1.41 A disciplinary measure may be imposed:  (a) For staff members at the P-5 level and above, the Director of the Office of Human Resources (Director, HR) makes recommendations to the Director-General, who retains authority to impose disciplinary measures;  (b) For staff members at the P-4 level and below, the Director, HR makes recommendations to the Deputy Director-General Operations who has authority for imposition. However, in cases where the proposed disciplinary measure is dismissal for misconduct, or in cases of fraud or sexual harassment, the recommendation of the Director, HR is made to the Director-General who retains authority to impose disciplinary measures.”</p>