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منظمة  
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# FINANCE COMMITTEE

**Hundred and Seventieth Session**

**Rome, 21 - 25 May 2018**

**FAO Audit Committee - 2017 Annual Report to the Director-General**

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

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### EXECUTIVE SUMMARY AND DIRECTOR-GENERAL'S COMMENTS

- The Director-General is pleased to provide the Finance Committee with the Audit Committee's 2017 Annual Report, 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 the Audit Committee's 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 Internal Control Framework (ICF), based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model, approved and issued in April 2016 which will allow the issuance by the Director-General of a Statement of Internal Control with the 2017 Financial Statements.
- The Audit Committee is pleased with the efforts made in tone at the top, in particular, improvement in Organization-wide communication of FAO's zero tolerance of fraud and corruption.
- The Audit Committee recommends ending the amalgamation of the two functions of Ethics Officer and Ombudsman, which have different responsibilities, require different skills and are based on different standards, which present inherent conflicts of interest.
- The Report concludes positively on the operation of the Office of the Inspector General (OIG) and the excellent results from the external quality assessment of the internal audit function and its coordination with other oversight functions. The Audit Committee notes there were no impairments to the independence of OIG operations in 2017. However, it recommends reinforcing the perception of independence with improved travel arrangements.
- The Audit 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 taken to close recommendations. Management update of actions on high-risk, long-outstanding recommendations will be provided at the forthcoming Finance Committee session.
- The Audit Committee is concerned that OIG work plans cannot be implemented within the proposed period due to the lack of resources. While welcoming the fact that the vacancy rate in OIG had reduced significantly, the Committee recommends that FAO Governing Bodies add professional posts to OIG audit and investigation functions. This will also allow the Organization to improve its response to demands related to sexual harassment and sexual exploitation and abuse.
- The Audit Committee is concerned that some OIG high-risk recommendations going back to 2014 are still not implemented.
- The Director-General concurs with the Report's recommendations.

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

- The Director-General appreciates the advice provided by the Audit Committee, both in the Annual Report and also in the course of its meetings during the year in the areas of its mandate. Management's status report on the recommendations made in the Audit Committee's previous reports is contained in Annex 3. The Director-General agrees with the recommendations made in the Audit Committee's 2017 Annual Report and provides the following comments:
- In 2018, FAO's Internal Control Framework will see major enhancements. I will issue a statement of internal control with the 2017 Financial Statements. This statement is supported by the letters of representation that management prepared in 2017, together with improved risk-management processes.
- FAO remains committed to a zero tolerance policy for fraud. I have established a custodian for the policy against fraud and other corrupt practices who has been tasked to prepare all necessary Organization-wide communication on fraud and corruption prevention. The

Vendor Sanctions Committee was re-established and fully operational in 2017 and will report progress to the Audit Committee.

- In the coming months, management and OIG will give full attention to filling OIG's remaining vacancies, with the intention of reporting implementation of the Audit Committee's recommendation by the third quarter of 2018.
- The Office of the Director-General will consider flexibility in management of the Inspector General's travel arrangements.
- Management will give full attention to taking action on OIG high-risk recommendations issued prior to 2015.

#### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2017.

#### Draft advice

**The Finance Committee takes note of the FAO Audit Committee's Annual Report for 2017 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;**
- **looks forward to the Audit Committee recommendation on the selection process of future Audit Committee members; 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 autumn 2018.**

## I. INTRODUCTION

1. As an independent advisory expert body, the FAO Audit Committee (the Committee) assists the Director-General (DG) in fulfilling his oversight and governance responsibilities. The Committee helps ensure that the DG receives independent and objective assurance on the effectiveness of the internal audit, inspection, investigation and ethics functions, and provides advice on the system of internal control, risk management and governance. 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 DG is to provide a copy of the Committee's Annual Report to the Finance Committee, together with his/her comments thereon, if any.
3. This fifteenth Audit Committee Annual Report provides an overview of its discussions and recommendations during 2017. The Committee met three times in 2017.
4. The composition of the Committee during 2017 is provided in Annex 1.

## II. FUNCTIONING OF THE COMMITTEE

5. During the reporting period, the Committee convened in February, July and November 2017 at FAO headquarters, meeting over a two-day period each time. Ms Lesetedi was elected Chair at the December 2015 meeting, with effect from 2016. Partial membership of the Committee was achieved throughout the year with one position remaining vacant after a new Member resigned following the February 2016 session. In December 2017, on the recommendation of the DG and the Finance Committee, the FAO Council appointed a new Member who will join the Committee in 2018.
6. The Committee commends OIG for the effective secretariat services provided during the year in support of the scheduled meetings, as well as between sessions.
7. The Committee is pleased to report continuing good engagement with the External Auditor and Ombudsman/Ethics Officer. The Committee was briefed on the external audit and ethics function work plans, 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-General (DDG) Operations and other members of Senior Management at each meeting. However, the Committee did not meet with the DG in 2017. The Committee reiterates the importance of direct engagement with the DG.
9. While identifying some areas for further attention, the Committee concludes that it has discharged its duties in accordance with its current Terms of Reference. The Committee conducted a survey on its performance directed to Senior Management and Finance Committee members, as well as a self-assessment of its work in line with best practices. While both exercises concluded that overall the Committee's performance was adequate and in line with its current Terms of Reference and best practices, there was room for improvement in terms of more visibility, interacting with all stakeholders and continuing to raise issues on high-level risk, as well as ethics and investigation issues needing attention to the DG and Senior Management. The Committee intends to start field visits to the Regions in 2018 which although primarily will be to familiarize with the work of the organization at the field levels, this will also assist in creating visibility of the Audit Committee to the larger organisation.
10. Following recommendations from OIG's Internal Audit Quality Assurance Review (late 2015), the Committee together with the Secretariat prepared revised Terms of Reference. The document was tabled at the 166th meeting of the Finance Committee for its endorsement. The document is still under consideration and the Committee agreed with the proposed changes made

during the 169th and March 2018 informal Finance Committee meetings, underlining the need for close interaction with the DG while providing reports to the Finance Committee to enhance oversight.

11. The Committee noted the Finance Committee's request to receive a report after each Audit Committee session, but recommended the continuation of the Annual Report for completeness of information.

12. The Committee agreed that future selections of Audit Committee members should be advertised to provide a more transparent and competitive process, and that a selection panel might be established to choose between the best available candidates.

### **III. KEY MESSAGES AND CONCLUSIONS FROM THE AUDIT COMMITTEE'S 2017 WORK**

13. The key messages and conclusions from the Committee's work during 2017 are summarized below. Further detail is provided in later sections of this Report, organized according to the four broad areas established in the Committee's Terms of Reference.

- The Committee recognizes the progress made in strengthening governance arrangements and in particular welcomes the preparation of the statement of internal control to be issued with the 2017 Financial Statements.
- The Committee is pleased to note efforts in tone at the top, in particular, the issuance of Organization-wide communication of FAO's zero tolerance of fraud and corruption.
- The Committee encouraged management to prioritize improving risk-management processes.
- The Committee commended the Organization on the External Auditor's unmodified opinion of the 2017 Financial Statements.
- While the Committee notes that there were no impairments to the independence of OIG operations in 2017, however, it recommends reinforcing the perception of independence with improved travel arrangements.
- The Committee noted that long-outstanding, high-risk recommendations (reconfirmed as still being relevant) have not been fully implemented. The Committee encourages Management to close these recommendations as soon as possible, and in general to continue efforts to reduce the time taken to close internal audit recommendations.
- The Committee notes the Vendor Sanctions Committee was not functioning in the second half of 2017. This is particularly concerning given the greater delegation of responsibilities to Decentralized Offices, a growing portfolio of projects requiring substantial procurement in the field and that implementing partners and vendors contribute in large part to the implementation of programmes.
- The Committee notes that the amalgamation of the two functions of Ethics Officer and Ombudsman is not best practice, creating inherent conflicts of interest.
- The Committee is pleased that an update of the Guidelines on Internal Administrative Investigations, which will close the pending recommendations from the 2013 external review of OIG's investigation functions, was issued in early 2017.
- The Committee considers that OIG is delivering its services adequately and effectively, including implementing a Quality Assurance Improvement Programme.
- OIG had continuing vacancies throughout 2017. With carry over vacancies in professional posts and further vacancies expected in the first half of 2018, the Committee recommends that Management ensure OIG vacancies are expeditiously filled. The Committee will continue to monitor this in 2018.
- The Committee considers that OIG would need additional posts to be able to manage its work plan objectives within the desired timeframe. This will also allow the Organization to improve its response to demands related to sexual harassment and sexual exploitation and abuse.

- The Committee recommended that capping reports agreed actions/recommendations for field offices be implemented.
- The Committee encouraged Senior Management to implement long-outstanding audit recommendations and for Management to provide more realistic timeframes for implementation of action plans.

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

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

14. During 2017, the Committee received briefings at each of its meetings from the staff from Finance Division, the Chief Information Officer, the Inspector General and the External Auditor on the enterprise resource programme (ERP) and continued use of the International Public Sector Accounting Standards (IPSAS). 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 2016 Financial Statements and came out with minimal suggestions. It welcomed their finalization with an unqualified external audit opinion. The Committee stated it would like to hear more on the benefits IPSAS has brought to the Organization.

15. The Committee appreciated the efforts to produce the audited accounts, but encouraged Management to focus on implementing risk management and internal control, and stressed the importance of issuing a statement of internal control, especially to better understand weaknesses in Decentralized Offices.

16. 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.

### **B. Treasury and Investment functions**

17. The Committee encourages Management to implement the recommendations from the treasury risk review and audit of the investment function especially the high-risk areas identified in treasury management related to counterparty, foreign exchange, imprest account replenishment and monitoring of risks through FAO's field offices. Concerning investment management, the Committee invites Management to implement the agreed actions on the revision of contracts with fund managers and their selection process.

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

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

18. 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 and opportunities. 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 end of 2017 reached an 85 percent implementation result (compared to a 93 percent implementation target) of recommendations outstanding for more than two years. This target has been maintained for 2018–2019. The Committee appreciated the improvements in implementing risk-assessment plans and the rate of implementing audit recommendations.

19. The Committee expressed concern that little progress was reported on closing long-outstanding OIG audit recommendations addressing high-risk areas, although these were still considered relevant.

20. The Committee noted that the Department of Operations and OIG have worked together to develop a dashboard which provides online information to Managers on the status of open recommendations in their area. The Committee commends the Organization for this accomplishment which has led to a decrease of open recommendations, but stressed that this needed to continue with the same momentum.

21. Examples of important areas where past recommendations continue to be outstanding include:

- implementation of an Organization-wide business continuity management framework;
- establishment of stronger monitoring practices at Headquarters for operations in field offices;
- periodic assessments of the staffing structure and capacity of Country Offices to handle new delegated authorities, including emergencies management; and
- enhanced monitoring of infrastructure requirements and actions regarding meeting safety standards.

Further details can be found in OIG's 2017 Annual Report including status information provided by FAO management.

## **B. External Audit Recommendations**

22. In 2017, the Committee continued to review the external audit management letters and report. The Committee requested Management provide more integrated information on the External Auditor's recommendations and the related management responses and actions taken. Noting that a similar request had been made by the Finance Committee, the Committee requested that the External Auditor share any future status reports starting with Management responses to the 2016 Long Form Report, prepared for the November 2017 Finance Committee meeting.

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

23. The Committee welcomed the work leading to the issuance of a statement of internal control (SIC) with the 2017 Financial Statements. The Committee understood that the SIC would be provided during the first quarter of 2018. The Committee recognized that the level of maturity of controls and risk management would not be the same in all areas of the Organization, and stressed the importance of identifying a mechanism to test the reliability of the SIC after each issuance and to ensure that improvement is made each year.

24. The Committee encouraged Management to communicate the anti-fraud and anti-corruption policy more widely within the Organization following its issuance by the DG.

## **D. Results Focus**

25. 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 welcomed the further actions presented by Management at its 2017 meetings and the positive findings of OIG's review of the initial implementation of the new Strategic Framework, and endorsed the areas identified for further attention. The Committee appreciated the efforts on implementing risk management, but stressed that full ERM would need to be put in place.

## **E. Human Resources Management**

26. In 2017, the Committee reviewed the challenges of HR management related to vacancy rates, the implementation of the mobility policy, staff development and the updating of HR policies. The Committee again raised concerns about the high number of vacancies in the Office of Human

Resources (OHR) – 25 percent at some points during the year – which has repercussions for the efficiency and timeliness of recruitment in other units.

27. The Committee recommended training of non-staff (NSHR) be improved, in particular introducing mandatory and monitored training of ethics and standards of conduct for those NSHR staff entrusted with critical functions.

28. The Committee noted there was no longer a specific division which developed HR policies, and this represented a vulnerability which the Organization should address.

29. The Committee noted a potential risk in MS 330.1.41 (b) on disciplinary measures for P4 staff and below, highlighting that in the current procedures the Director, OHR is responsible for making disciplinary recommendations and also has the authority to impose the decision.

30. 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.

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

### **A. Ethics Office**

31. The Committee reaffirmed its concern about the role of Ombudsman/Ethics Officer, which does not follow good practice as it presents a conflict of interest between the two functions. This was clearly demonstrated in the Ombudsman/Ethics Officer's reporting 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 the Joint Inspection Unit's (JIU) review of mechanisms and policies addressing conflict of interest in the UN system which states "The Inspector therefore reiterates a long-standing JIU recommendation to avoid dual ethics functions and collocation of the ethics function with other oversight functions or Management"<sup>1</sup>. In addition, the Committee was made aware of several cases of conflict of interest between the Ethics and Ombudsman functions.

32. The Committee noted that for the second year the financial disclosure programme had seen a considerable increase in non-compliance in responding to the financial disclosure questionnaire (more than 50 staff). The Committee considered that the policy would not take full effect unless it was strictly enforced and followed up by OHR. Furthermore, the Committee reiterated the need for spot checks and recommended that these should be established on a regular basis.

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

34. 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.

### **B. Vendor Sanctioning**

35. The Committee notes that the Organization took action to re-establish FAO's Vendor Sanctions Committee (VSC) which was not functioning during the second Half of 2017. The Committee looks forward to good interaction with the renewed VSC in 2018. The Committee

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<sup>1</sup> JIU/REP/2017/9 – paragraph 83

recommended the creation of a staff position for the VSC Secretary and proposed changes to the Policy.

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

36. The Committee was satisfied to note that a custodian for the policy had been designated at the Deputy Director-General level and looks forward to the plans for implementation. This will assist the dissemination and implementation of the policy. The Committee noted with interest communications sent to all staff to highlight the Organization's zero tolerance of fraud.

### **D. Whistle-blower Protection**

37. 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 2017 where the complainant raised concerns of retaliation, the Organization responded promptly and appropriately.

### **E. Evaluation**

38. The Committee noted and fully supports the recommendations made in the Evaluation of FAO's evaluation function, in particular regarding the need to establish a corporate evaluation policy for the Organization in addition to the charter for Office of Evaluation Division (OED).

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

39. 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 number of professional posts in the office for both the audit and investigation functions (see paragraph 45, below).

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

40. 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 2017, OIG had achieved a substantial part of its planned biennial audit coverage as indicated in OIG's 2017 Annual Report, notwithstanding auditor vacancies during the year and with some reporting carrying over into 2018. The Committee appreciated the collaborative efforts of OIG, External Audit and Evaluation functions during 2017 to promote synergy and cost-effective assurance coverage.

### **B. Investigative Functions**

41. The Committee was pleased to note that the revised Guidelines on Internal Administrative Investigations were issued in early 2017. The Committee appreciates the efforts made by the Investigation unit in 2017 to manage its caseload and respond to the need for policy inputs, despite investigator vacancies.

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

42. 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, for viewing at OIG's premises. The policy was extended in 2013 to provide for viewing reports via a secure internet connection. This has been the requested method in all cases since then. The Committee welcomed OIG's smooth implementation of the policy, with all eight requests for remote online viewing received from two Member States, 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 to exclude the confidential third-party comparator information.

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

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

44. At the end of 2017, OIG had three vacancies (two P4s and one G5) in its region-based auditor posts and headquarters. The Committee is pleased to note that the vacancy rate in OIG has significantly decreased.

45. The Committee is concerned that OIG work plans cannot be implemented within the proposed period due to the lack of resources. Audits and investigations in 2017 were carried over to the following biennium because of insufficient resources. The Committee recommends that FAO Governing Bodies add professional posts to OIG audit and investigation functions. This will also allow the Organization to improve its response to demands related to sexual harassment and sexual exploitation and abuse.

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

46. The Committee acknowledged the highest level of standards assigned to FAO/OIG Internal Audit by the independent external assessor in their External Quality Assessment Report and emphasized the importance of maintaining these results. The Committee invited OIG to implement the recommendations for improvement based on the data presented.

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

47. The Committee reviewed the status of implementation of the 12 prior recommendations in its annual reports, taking into account the further updates provided by Management and OIG. As indicated in Annex 3, the Committee considers seven 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 2018.

## **IX. ACKNOWLEDGEMENT**

48. The Committee acknowledges the good cooperation and assistance received from Management, the Inspector General and his staff, Ethics/ Ombudsman officer, other FAO staff and the External Auditor who provided information briefings during its 2017 meetings.

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

1. Following a recommendation from 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 Committee (a) will be appointed by the Director-General and have a membership which is fully external agreed by the Council on the recommendation of the Director-General and Finance Committee" (IPA action 2.92). The first appointment under this system was made in 2010 and the 2013 update of the Committee's Terms of Reference reflect this.

3. The Committee is composed of five members. One position remained vacant after February 2017, following the resignation of a Committee member. The Committee's composition in 2017 was as follows:

Members:	Ms L. Lesetedi (Chair)
	Mr J. M. Portal
	Ms E. Quinones
	Mr V. Liengsrirawat
	Ms Daniela Graziani (resigned after February 2017 session)

Secretary (ex-officio) Inspector General

## Annex 2

**Manual Section 146 – APPENDIX C**  
**FAO’s AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

1.	Purpose
1.1	The 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 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 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.
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 performance of the Office.
2.	Responsibilities
2.1	The Committee reviews and advises the Director-General on:
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 improvement projects concerning financial systems and financial reporting.</li> </ul>
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: <ul style="list-style-type: none"> <li>i) the Organization’s improvement projects concerning internal controls and risk management;</li> <li>ii) the results of internal and external audit coverage of the Organization and the status of recommendations arising from internal and external audits.</li> </ul>
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.
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: <ul style="list-style-type: none"> <li>i) the independent role of the Inspector-General and his/her Office;</li> <li>ii) the sufficiency of resources available for OIG to meet the Organization’s needs;</li> </ul>

<ul style="list-style-type: none"> <li>iii) OIG's quality assurance mechanisms and results of internal and external quality assurance reviews;</li> <li>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;</li> <li>v) audit reports issued by OIG and the status of implementation by the Organization of the recommendations;</li> <li>vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings;</li> <li>vii) OIG's quarterly and annual reports.</li> </ul>
2.2 The Committee establishes an annual plan to ensure the committee's responsibilities and stated objectives for the period are effectively addressed.
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.
3. Authority
3.1 The Committee has the authority to: <ul style="list-style-type: none"> <li>e) obtain all necessary information and consult directly with the Inspector-General and his/her staff;</li> <li>f) access all reports and working papers produced by OIG;</li> <li>g) seek any information from any staff member and require all staff to cooperate with any request made by the Committee;</li> <li>h) obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if it is considered necessary.</li> </ul>
4. Membership
4.1 The Committee consists of five external members and a Secretary ex-officio. All members and the secretary are appointed by the Director-General.
4.2 The Committee membership is agreed to by the Council on the recommendation of the Director-General and Finance Committee.
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.
4.4 Members are independent of the FAO Secretariat and the Director-General. Former members of the FAO Secretariat are not appointed to the Committee within a period of two years following the end of those responsibilities.
4.5 Members serve in their personal capacity and cannot be represented by alternate attendees.
4.6 The Committee elects its own Chairperson from within their number.
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.
5. Secretariat

5.1 The Secretary of the Committee is the Inspector-General ex officio, who shall report directly to the Chairperson on matters relating to the work of the 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 or External Auditor may request the Chairperson to call additional meetings if necessary.
6.2 The members of the 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 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 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 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 or other FAO staff, or the external auditor, to attend meetings.
6.9 The 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.
6.10 Minutes of meetings are prepared and kept by the Secretariat. The Committee reviews the draft minutes by correspondence, and formally adopts the minutes at its next meeting.
6.11 The deliberations of the 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.
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

<p>8.1 Members act in an independent, non-executive capacity while performing their advisory role on the Committee. As such, members are not to be held personally liable for decisions taken by the Committee acting as a whole.</p>
<p>8.2 Committee members are indemnified from actions taken against them as a result of activities performed in the course of business of the Committee, so long as such activities were performed in good faith.</p>
<p>9. Reporting</p>
<p>9.1 The Committee reports to the Director-General and all reports of the Committee are addressed to him or her. The 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 Committee, or another member, as decided by the Committee, is invited to the Finance Committee to present the Committee's annual report.</p>
<p>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.</p>
<p>10. Remuneration and Reimbursement of Costs</p>
<p>10.1 Members are not remunerated by FAO for activities undertaken with respect to their membership of the Committee. FAO reimburses Committee members for any travel and subsistence costs that are necessarily incurred in relation to participation in Committee meetings.</p>
<p>11. Periodic Review of the Terms of Reference</p>
<p>11.1 The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.</p>

## Annex 3

## STATUS of audit committee recommendations

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status <sup>2</sup>	Management/OIG Comments
1. Management to give priority to implementing the recommendations in the [OIG audit] reports, to manage identified GRMS post-deployment system risks and IPSAS project risks, and ensure FAO efficiently prepares IPSAS compliant financial statements.	2013 report, para 20	DDO/CSD/ CIO	Implemented	<p>GRMS post-implementation system risks were addressed through retaining capacity for post-implementation support. This evolved into ongoing support arrangements governed by an SLA in the CIO service catalogue. (<a href="http://intranet.fao.org/departments/cio/products_and_services/detail/c/25284/">http://intranet.fao.org/departments/cio/products_and_services/detail/c/25284/</a>) Further enhancements to long-term support for GRMS (as part of the overall ERP system portfolio) would be implemented, if/when required, based on the ERP Roadmap study that was concluded in September 2017. SLAs for GRMS support are in place and published on-line (reference for example the SSC site <a href="http://intranet.fao.org/csd/ssc/service_catalogue/">http://intranet.fao.org/csd/ssc/service_catalogue/</a>).</p> <p>As noted, the ERP Consultancy took place and the report was issued. It is in the process of being implemented, as determined appropriate by the ERP Steering Group (to become ERP Board). The ERP SG has the responsibility to ensure that the FAO ERP environment is and remains coherent, strategically coordinated, and cost-optimized. In so doing the Board will steer decisions and choices that best meet the Organization's need for effective and efficient operation, which includes the review of all GRMS post deployment issues and risk mitigation.</p> <p>As recorded for previous years, the financial statements for 2016 received an unmodified opinion. The statements for 2017 are under review by the external auditors and no significant issue has been raised. The preparation of IPSAS compliant statements has gone well since the introduction of IPSAS in FAO in 2014.</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".

<b>Recommendation</b>	<b>FAO AC Report paragraph reference</b>	<b>Responsible Unit</b>	<b>Classification of Status<sup>2</sup></b>	<b>Management/OIG Comments</b>
2. The Committee recommended that the Finance Division review its investment reporting, particularly those presented to the governing bodies, so that detailed investment performance, with related benchmarks, should be clearly shown separately from the accounting results which are influenced by exchange rate changes. Present reporting under-reported the creditable investment performance that had been achieved.	2015 report, para. 13	CSF	Implemented	Additional analysis will be included in the Report on Investments to be presented to the 170th Session of the Finance Committee in May 2018. This includes further analysis of the Euro based investment portfolio excluding the impact of exchange rate changes.
3. 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	Action in progress	OHR: OHR is developing two e-learning courses, one on Fraud and Corruption and another on Internal Controls. Both will be launched in 2018 and made available to all staff through the you@fao platform. An awareness video will also be available by 14 May 2018 on 'Prevention of Harassment, Sexual Harassment and Abuse of Authority'. The Ombudsman and Ethics office and OIG are contributing to the project. Ombudsman and Ethics Office: A letter will be sent to all FAORs and FAO liaison offices explaining how the Ethics office can help in increasing knowledge and in raising awareness about organizational ethics (February 2017)

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status <sup>2</sup>	Management/OIG Comments
				<p>A request will be made to all Regional ADG's to give an opportunity to the Ombudsman and Ethics office to address Regional Management meetings, which bring together all FAORs, Sub regional directors and regional senior managers. Not yet met.</p> <p>A meeting will be held with OSD at least once a year to share non-confidential information about the status of ethics issues in country offices and to coordinate on the best way to address them. One meeting with the Director OSP in 2017 and regional focal points were given to The Ombudsman and Ethics office. Consultations and exchange will continue.</p> <p>Collaboration with OIG will be increased to address issues identified by auditors and to use examples shared by investigators to improve the quality of the training package. Collaboration exist, increased since January 2018 and will be maintained.</p> <p>For the year 2017 already the Ethics Office plans to provide trainings in 15 country offices by video conferences, to conduct face to face trainings at FAO Headquarter in 10 divisions and to conduct face to face trainings in 10 country offices. Done for the year 2017 and will continue along 2018 and 2019.</p>
4. The Committee expects that in 2017 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	<p>Contrary to expectations, in 2017 the Vendor Sanction Committee (VSC) had only three cases from OIG (three cases of temporary suspension for vendors based duty stations outside headquarters).</p> <p>With regard to lessons learned, the Secretary of the VSC prepared a proposal of amendment to the sanctions procedures and the sanctions guidelines that were shared with CSD/DDO Management in September 2017. The AC 2014/27 on the VSC has also been revised, in consultation with OIG, and is currently being reviewed by DDO.</p> <p>The VSC, in collaboration with OIG, is working to improve the sanction rules and the sanction guidelines, taking into account the 11 cases reviewed by the VSC since its foundation. In addition, The possibility of establishing a Joint Vendor Sanctions Secretariat with WFP and IFAD is under consideration.</p>

<b>Recommendation</b>	<b>FAO AC Report paragraph reference</b>	<b>Responsible Unit</b>	<b>Classification of Status<sup>2</sup></b>	<b>Management/OIG Comments</b>
5. 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 requirements for those NSHR staff entrusted with critical functions	2016 report, para.23	OHR/ Ethics Office	Agreed but pending action	OHR and the Ethics Office are developing an online training which will become mandatory
6. 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	Agreed but pending action	Contacts have been taken with other Rome based UN Agencies
7. The Committee recommends that in the absence of the Inspector General, interim responsibilities be conferred to Senior OIG staff, in order to preserve independence and avoid	2016 report, para.34	ODG	Implemented	OIG Senior Officers are now systematically OIG in OIG

<b>Recommendation</b>	<b>FAO AC Report paragraph reference</b>	<b>Responsible Unit</b>	<b>Classification of Status<sup>2</sup></b>	<b>Management/OIG Comments</b>
potential conflicts of interest.				
8. 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	On going	

**FAO AUDIT COMMITTEE**  
**Written Statement for Finance Committee**

21 May 2018

The Audit Committee (AC) is pleased to present this statement setting out its views with regard to the Finance Committee's consideration of proposed revisions to the AC's Terms of Reference (ToRs). The views set out in this statement are from the perspective of ensuring transparency and accountability, while at the same time preserving the AC's effectiveness.

*Purpose:* Paragraphs 1.1, 1.2, 2.1

Currently, the ToRs provide that the purpose of the AC is to serve as an expert advisory body to the Director General while providing information to the Governing Bodies primarily through the Committee's Annual Reports. This ensures that the Director General who is closest to the day to day activities of the Organisation is made aware, without undue delay, of any risks to the Organisation that are within the AC's purview.

In the view of the AC, this arrangement has worked well and has promoted an open and frank dialogue between the Committee and senior management, particularly with the office of the Inspector General.

Furthermore, it has fostered mutual trust and ensured accessibility to information required by the Committee to carry out its responsibilities.

In the opinion of the AC, the proposed changes to the ToRs whereby the AC is to serve as an expert advisory body and provide information to the Council, through the Finance Committee and the Director General, makes explicit that which the Committee has always understood to be its primary purpose, i.e., to provide the Governing Bodies of the Organisation with all the information relevant to its mandate. Maintaining direct and open communication between the Committee and senior management will continue to be a key factor in the effectiveness of the AC.

*Membership:* 4.1, 4.2, 4.3, 4.7

The AC is composed of members external to the FAO, all of who must satisfy stringent criteria of independence as a condition of their appointment. The ability of the Committee to advise the Organisation relies on the skills, knowledge, experience (SKE) and in particular the independence of its members.

In the opinion of the AC, a transparent, competitive process is the best way to ensure that the Committee, collectively, has the relevant SKE to fulfil its responsibilities and that no member is in a relationship that could interfere with the exercise of his or hers' independent judgement. This also ensures that experts are acting as individuals in carrying out their fiduciary responsibilities and not as representatives of constituencies.

In the proposed revision, paragraph 4.3, a selection panel could be set up with the view of advising the Finance Committee as to proposed candidates. The advantage of such a panel, comprised of individuals who are aware of the profile needs of the Committee would facilitate the work of the Finance Committee by pre-clearing individuals with respect to their compliance with required SKE. The Finance Committee would review the proposed pre-cleared candidates with due regard to gender, geographic, and other diversity imperatives. The added advantage of this process would also be to avoid that appointments become hostage to political divergences, which might lead to detrimental delays in filling committee vacancies. The Council, on the recommendation of the Finance Committee, would then be the appointing authority.<sup>3</sup>

#### *Audit Committee Secretary: 5.1*

The AC wishes to call attention to this provision which invests the Inspector General (IG) with the duties of Secretary to the Committee. In the opinion of the AC, this may undermine the overall perception of independence of the Committee. The Committee wishes to stress that this is more a perception than a reality; at no time has there been an instance or event which has compromised the independence of the Committee as a consequence of this arrangement. Nonetheless, it may be opportune in this current revision process to re-examine whether another management unit, such as the unit that provides secretariat duties to the Finance Committee and the Council, might be better placed to provide complete assurance regarding the independence of the Committee. This should not impede the IG from continuing to report directly to the Chairperson of the AC on matters relating to its work.

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<sup>3</sup> In the view of the AC, paragraph 4.2, which provides for Council approval of committee members introduces some confusion as 4.1 already provides that the Council will appoint the members of the committee. The question here is whether 4.2 is not redundant and unnecessary.