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FINANCE COMMITTEE

Hundred and Sixty-sixth Session

Rome, 27 - 31 March 2017

FAO Audit Committee - 2016 Annual Report to the Director-General

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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 2016 Annual Report to the Director-General, together with the Director-General's comments, as foreseen in the Audit Committee's Terms of Reference (MS 146 – App. C). The Terms of Reference also require the Audit Committee's Chairperson or another member, as decided by the Audit Committee, to be invited to present the Annual Report to the Finance Committee.
- The Committee recognizes the progress made in strengthening governance arrangements and in particular welcomes the Internal Control Framework (ICF), based on the COSO model, approved and issued in April 2016.
- The Committee is concerned about weaknesses in the tone at top, in particular, the lack of Organization-wide messaging of FAO's zero tolerance to fraud and corruption. 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.
- The report concludes positively on the operation of the Office of the Inspector General (OIG) and its coordination with other oversight functions. While the Committee notes that there were no impairments to the independence of the operations of OIG in 2016, it recommends reinforcing the perception of independence with improved Officer-in-Charge and 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. The Director-General concurs with the report's recommendations. Management update of actions on high-risk long-outstanding recommendations will be provided at the forthcoming Finance Committee session.

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 2015 report are contained in Annex 3. With respect to the particular recommendations in the 2016 Annual Report, the Director-General agrees with the recommendations and provides the following comments:
- In 2017, FAO's Internal Control Framework will see major enhancements. The corporate risk log will be completed with more detailed risk logs by major areas. This will support the letters of representation that management will prepare to accompany the 2017 financial statements and support my annual statement of internal control.
- FAO remains committed to a no tolerance policy for fraud. I have established a custodian for the policy against fraud and other corrupt practices and will task him to prepare all necessary Organization-wide communication on fraud and corruption prevention. The Vendor Sanctions Committee will be fully operational again in 2017 and will report progress to the Audit Committee.
- Management and OIG will give full attention in the coming months to filling current auditor vacancies, with the intention of reporting implementation of the Committee's recommendation by the third quarter of 2017.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2016.

Draft Advice

- **The Finance Committee takes note of the FAO Audit Committee's Annual Report for 2016 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 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 Autumn 2017.**

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, amongst others, by considering the work of the Office of the Inspector General (OIG), the other FAO oversight functions (Evaluation and External Audit) and management action 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 Fourteenth Annual Report of the Audit Committee provides an overview of their discussions and recommendations during 2016. The Committee met three times in 2016.
4. The composition of the Committee during 2016 is provided in Annex 1.

II. FUNCTIONING OF THE COMMITTEE

5. During the reporting period, the Committee convened in March, July and November 2016 at FAO headquarters, meeting over a two-day period each time. Partial membership of the Committee was achieved throughout the year, one position remaining vacant until a new Member was agreed in December 2016 by the Council on the recommendation of the DG and the Finance Committee. Ms Lesetedi was elected at the December 2015 meeting as Chair from 2016.
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 office plans, work progress and results, in person or via reports, 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 or his alternate, and other members of Senior Management, at each meeting. The DG was unable to meet with the Committee.
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. 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 has been tabled at the 166th meeting of the Finance Committee for its endorsement.

III. KEY MESSAGES AND CONCLUSIONS FROM THE COMMITTEE'S 2016 WORK

10. The key messages and conclusions of the Committee's work during 2016 are summarized below, and elaborated in later sections of this report organized according to the four broad areas established in its Terms of Reference:

- The Committee recognizes the progress made in strengthening governance arrangements and in particular welcomes the Internal Control Framework (ICF), based on the COSO model, approved and issued in April 2016.
- The Committee is concerned about weaknesses in the tone at top, in particular, the lack of Organization-wide messaging of FAO's zero tolerance to fraud and corruption.
- The Committee encouraged FAO management to give priority to improving internal controls, including stronger financial monitoring, to prevent and enforce accountability on project over-expenditure and to continue to work with donors on compliance with grant agreement provisions.
- While the Committee notes that there were no impairments to the independence of the operations of OIG in 2016, it recommends reinforcing the perception of independence with improved Officer-in-Charge and 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 encourages further development of enterprise risk management (ERM) within the Organization, which despite progress in 2016 to develop a corporate view of risk as anticipated in the ERM policy, still remains at a low maturity level.
- Noting the relative importance of FAO activities entrusted to non-staff human resources it is critical that the Organization implement mandatory ethical training for both staff and non-staff personnel.
- The Committee notes its concern that the Vendor Sanctions Committee was not functioning in the second half of 2016, 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 a 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.
- 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 2016. With carry over vacancies in professional posts and further vacancies expected in the first half of 2017, the Committee **recommends** that management ensure OIG vacancies are expeditiously filled. The Committee will continue to monitor this in 2017.
- With regard to the Organization's After Service Medical Coverage liabilities, the Audit Committee remains concerned that no lasting solution has been found within the UN system.

IV. ACCOUNTING AND FINANCIAL REPORTING POLICIES

A. Implementation of IPSAS-compliant financial statements

11. During 2016, the Committee reviewed FAO's continuing efforts on how the enterprise resource programme (ERP) supported IPSAS implementation. The Committee received briefings at each of its meetings during the year from the Finance Director, the Chief Information Officer as well as the Inspector General and the External Auditor. Committee meetings provided an opportunity for the Organization to systematically present on milestone progress for the ERP implementation, and on the status of actions on the identified risks and on recommendations from the oversight functions. The Committee was provided with an opportunity to review the draft 2015 financial statements and did not

make any substantive suggestions. It welcomed their finalization with an unqualified external audit opinion.

12. The Committee encouraged FAO management to give priority to improving internal controls, including stronger financial monitoring, to prevent and enforce accountability on project over-expenditure and non-compliance with grant agreement provisions which result in disallowances by donors. The Committee also noted a high volume of outstanding receivables for very long periods of time, including outstanding Government Cash Contributions, outstanding staff advances and grants and invited Management to address the recovery of these receivables. The Committee also highlighted its concerns over the unresolved after service liability issues (Going concern).

B. Treasury and Investment functions

13. The Committee was satisfied to note that OIG, following a Committee recommendation, had completed its treasury risk review and audit of investment function. The Committee encourages management to implement the recommendations from the review 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 agreed actions on the revision of contracts with fund managers and on their selection process.

V. INTERNAL CONTROL AND RISK MANAGEMENT

A. Internal Audit Recommendations

14. The Committee appreciated continuing efforts by the Organization to emphasize accountability for timely implementation of agreed audit recommendations on actions to better manage the Organization's risks and opportunities. With regard to OIG internal audit recommendations, while there continues to be some year-to-year variation in overall implementation rates, the Committee notes that in aggregate management had, by end of 2016 reached a 83 percent implementation result (as compared to a 93 percent implementation target) of recommendations outstanding for more than two years. This target has been maintained by FAO for 2016-2017.

15. 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, and encouraged management to focus further attention on improving the rate of implementation of OIG audit recommendations, particularly those relating to high risks.

16. The Committee followed up on OIG's escalation policy that requires additional communications to senior management when agreed actions/recommendations approach or pass long outstanding status. These steps supplemented those already implemented by OIG in 2015 to allow for timely, direct update of its recommendation/action database by auditees ahead of its own six-monthly assessments. The Audit Committee notes with satisfaction that the Director-General, through instructions to his Senior Management Team, has addressed the need to implement audit recommendations/agreed actions.

17. Among the important areas where past recommendations continue to be outstanding (further described in the OIG 2016 annual report together with status information provided by FAO management), are:

- implementation of an Organization-wide business continuity management framework;
- establishment of stronger monitoring practices at headquarters for operations in field offices; and
- enhanced monitoring of infrastructure requirements and actions as regards meeting safety standards.

B. External Audit Recommendations

18. In 2016, the Committee continued to review the external audit management letters and report. The Committee requested that management provide more integrated information on the External Auditor 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 with them any future status reports starting with the management responses for the 2015 long form report, prepared for the November 2016 Finance Committee meeting.

C. Accountability and Internal Control Policies

19. The Committee welcomed the Internal Control Framework (ICF), based on the COSO model, approved and issued in April 2016. The Committee looks forward to receiving information on the implementation of the Framework throughout 2017.

20. The Committee has **encouraged management to communicate the anti-fraud and anti-corruption policy more widely within the Organization following its issuance by the DG**. The Committee was satisfied that a custodian for the policy was designated in November 2016.

D. Results-focus

21. Recognizing that 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-focussed approach to management and accountability are obtained and maintained. It welcomed the further actions presented by management at its 2016 meetings and positive findings of OIG's review of the initial implementation of the new Strategic Framework, and endorsed the areas identified for further attention. **It encourages further development of ERM within the Organization**, which despite some good work in 2016 by OSP to develop a corporate view of risk as anticipated in the ERM policy, still remains at a low maturity level.

E. Human Resources (HR) management

22. In 2016, 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 raised concerns regarding the high number of vacancies in the OHR division (25 percent at some points during the year) which has repercussions for the efficiency of the recruitment processes in other units.

23. 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.

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

A. Vendor Sanctioning

24. The Committee notes with regret that FAO's Vendor Sanctions Committee was not functioning in the second half of 2016. The Committee looks forward to a good interaction with FAO's renewed Vendor Sanctions Committee in 2017.

B. Update of FAO's Anti-Fraud Policy

25. The Committee welcomed the update in 2015 of FAO's Policy on Fraud and the Improper Use of the Organization's Resources, to which it had provided advice in the prior year. The Committee was satisfied to note that a custodian for the policy was designated at the Deputy Director-General level and looks forward to the plans for implementation. This will favour the dissemination and implementation of the policy.

C. Whistleblower Protection

26. 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, and in the very few instances (three) in 2016 where the complainant raised concerns of retaliation, the Organization responded appropriately and promptly.

D. Ethics Office

27. The Committee **recommends** reviewing the amalgamation of the two functions of Ethics Officer and Ombudsman, which is not best practice and creates inherent conflicts of interest. The Committee reviewed the functioning of the Ethics Office and expressed its concern about the understaffing of the Office and suggested that the Secretariat review its structure.

VII. EFFECTIVENESS OF OIG FUNCTIONS

28. 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 the results of past external assessments of audit and investigation functions, the positive results of OIG's recent 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.

A. Risk-Based Audit Assurance

29. The Committee regularly assesses OIG's risk-based planning methodology. The risk-based approach helps to ensure that OIG's assurance and advice are focussed on important areas of the Organization on a systematic basis, and the Committee found this to be evidenced by the topics reported on by OIG during the year. The Committee noted that by end of 2016, OIG had achieved a substantial part of its planned biennial audit coverage as indicated in OIG's 2016 annual report, notwithstanding auditor vacancies during the year and with some reporting carrying over into 2017. The Committee appreciated the collaborative efforts of OIG, External Audit and Evaluation functions during 2016 to promote synergy and cost-effective assurance coverage.

B. Investigative Functions

30. The Committee appreciates the efforts made in 2016 by the Investigation Unit to manage its caseload and respond to the need for policy inputs despite investigator vacancies. The Committee notes that at the end of 2016 the Guidelines on Internal Administrative Investigations had not yet been issued.

C. OIG Report Disclosure

31. 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 in 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 requests met as required in the policy well within stipulated periods. There were no instances of reports being withheld and no instance where the report was redacted to omit confidential third party comparator information.

D. OIG staffing and budget

32. 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 minor projected surplus and no budgetary concerns were brought to the attention of the Committee during the year.

33. At the end of 2016, OIG had six vacancies (two P4s, one P3, one P2, one G6 and one G5) in its region-based auditor posts and headquarters. The selection process for the P3 and the P2 had finalized and the incumbents were expected to join OIG in early 2017. Recruitment action for the rest of the vacant posts was in progress.

E. OIG independence

34. The Committee provided feedback on the selection process of the new Inspector General, which was completed in May 2016. The transition period between the departure of the former Inspector General and the arrival of the new one gave the Committee an opportunity to look at arrangements guaranteeing independence of the function. 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 potential conflicts of interest. Further, the Committee **recommends** that travel arrangements for the Inspector General be left to the discretion of the Inspector General on substantive matters within the authority of FAO's travel rules.

VIII. STATUS OF PRIOR YEAR RECOMMENDATIONS

35. The Committee reviewed the status of implementation of the eight 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 four recommendations as implemented on the basis that actions are now taking place on an ongoing basis and the other four recommendations as being in progress. These will continue to be monitored by the Committee during 2017.

IX. ACKNOWLEDGEMENT

36. The Committee acknowledges the good cooperation and assistance received from management, from the Inspector General and his staff, other FAO staff and the External Auditor who provided information briefings during its 2016 meetings.

Annex 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.

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.

The Committee is composed of five members. One position remained vacant throughout 2016, following the resignation of the Committee's former Chair in 2015. The Committee's composition in 2016 was as follows:

Members:	:	Ms L. Lesetedi (Chair)
		Mr J. M. Portal
		Ms E. Quinones
		Mr V. Liengsiriwat

Secretary (ex-officio)	Inspector General
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Annex 2

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

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)	<p>policies significantly affecting accounting and financial reporting issues and the Organization's financial control, including consideration of:</p> <ul style="list-style-type: none"> 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)	<p>the Organization's internal control and risk management strategy, framework and processes, in light of the significant risks facing the organization, including consideration of:</p> <ul style="list-style-type: none"> 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 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.
<p>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:</p> <ul style="list-style-type: none"> 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; v) audit reports issued by OIG and the status of implementation by the Organization of the recommendations; vi) investigation findings of presumptive or actual mismanagement, irregularities and fraud, and the status of actions by the Organization on the findings; vii) OIG's quarterly and annual reports.
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
<p>3.1 The Committee has the authority to:</p> <ul style="list-style-type: none"> e) obtain all necessary information and consult directly with the Inspector-General and his/her staff; f) access all reports and working papers produced by OIG; g) seek any information from any staff member and require all staff to cooperate with any request made by the Committee; h) 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 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
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.
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.
9. Reporting
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.
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.
10. Remuneration and Reimbursement of Costs
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.
11. Periodic Review of the Terms of Reference
11.1 The Committee periodically reviews the adequacy of its terms of reference, where appropriate recommending changes to the Director-General for approval.

Annex 3

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status ¹	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	Action In progress.	No change to the response: DDO/CSD/CIO will address governance of support arrangements as part of the CAPEX ERP roadmap project expected to commence shortly. SSC and CIO have in place Service Level Agreements for GRMS support. Additional SLAs to cover the overall support performance framework (i.e. Decentralized Offices) will be added in 2016 as part of the support model. With regard to IPSAS implementation, FAO has successfully completed two sets of IPSAS-compliant financial statements for 2014 and 2015. With regard to the definition of effective long-term support and governance arrangements for FAO's ERP, OIG notes that in September 2015 the CapEx Management Board, and the Director-General approved an allocation of USD 300 000 to the initiative "FAO Enterprise Resource Planning System Assessment and Roadmap" which will inter alia evaluate the global ERP support model and review current governance arrangements for GRMS and other ERP systems, as recommended by OIG. This consultancy is expected to be completed by mid-year 2017
2. The Organization consider further incentives and disincentives for Regional	2013 report, para 22	DDO/OSD	Implemented	Since the last report, the Organization has considerably strengthened its guidance and

¹ 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".

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status ¹	Management/OIG Comments
<p>and Country management to improve performance and internal control.</p>				<p>oversight related to performance and internal controls, particularly in Decentralized Offices (DOs). Incentives can be considered the better guidance provided and the outcome of the reporting exercise which provides feedback to DO managers in terms of lessons learned and best practices. These, in turn, facilitate the performance of the offices. The disincentives are mainly related to the negative elements which are now captured as part of the performance assessment exercise and can influence the decision about contract extensions (increased accountability). Some details of the two aspects contained in the recommendation (namely performance and internal control) are provided below.</p> <p>Specifically on performance: To focus the performance objectives of the FAORs, OSD and OHR have developed a library of sample objectives and indicators specifically tailored to FAO Representatives. The 2016 PEMS introduced a required mid-year PEMS review for Representatives. In addition, in preparation for the year-end extension of FAORs, OSD shared with Regional Offices a performance assessment dashboard that objectively measures indicators that are part of the PEMS process.</p> <p>Specifically on Internal Controls:</p>

Recommendation	FAO AC Report paragraph reference	Responsible Unit	Classification of Status ¹	Management/OIG Comments
				<p>The Internal Control Framework was developed and presented to the Finance Committee (FC 161/16).</p> <p>The template for the Fraud Prevention Plan, based on Administrative Circular No. 2015/08, Policy against Fraud and other Corrupt Practices, was distributed to DOs in 2016.</p> <p>A project, led by OSP, has been mobilized to design and deploy an internal control reporting procedure resulting in a Statement of Internal Control to accompany the 2017 financial statements.</p> <p>Guidelines for the preparation of FAO Country Annual Reports are progressively strengthening the focus in Part 3 on accountability and internal controls leading, in 2017, to a streamlined FAOR reporting approach for 2017 coordinating the Annual Reporting process with internal controls reporting. This approach was approved by the FAO Internal Controls Steering Group in December 2016.</p> <p>Awareness raising and training efforts, including an Internal Controls Questionnaire (ICQ) to be used for 2017 internal controls reporting, will begin in the second quarter of 2017 and continue throughout 2017. Document FC157/15 provides a Progress Report on an Accountability and Internal Control Framework. The Accountability Policy was promulgated end-December 2014. It sets the basic parameters and objectives for internal control. The conclusion of the Internal Control</p>

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				Framework will further support implementation of the Accountability Policy, including in relation to the Decentralized Offices Network.
3	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	Agreed but pending action CSF response: This reporting is the current practice of the Organization and the Report on Investments to the Finance Committee is submitted at each spring session.
4	The Committee recommends early implementation in 2016 by OIG and management of the new audit recommendation/agreed action escalation policy.	2015 report, para. 16	OIG and ODG	implemented The policy was issued with OIG's 2016-2017 workplan which received the concurrence of the Director-General. OIG followed up on outstanding recommendations as foreseen in the policy. The matter was also raised with the Senior Management Meeting.
5	The Committee has not yet reviewed a proposed Internal Control Framework but recommends that its finalization in 2016 be used as an opportunity to disseminate both accountability and internal control policies to all FAO personnel.	2015 report, para. 21	OSP OIG	implemented The ICF was issued in April 2016
6	The Committee further recommends that the Organization give consideration to more training/orientation to staff on controlling fraud, ethical behaviour and	2015 report, para 22	DDO/OHR/EO	Action in progress. OHR: OHR contacted several UN agencies to find the most common used courses on this subject and whether these courses would be relevant to FAO.

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<p>accountability and for managers on handling workplace and administrative conflicts with personnel.</p>				<p>The most commonly used training in the UN system is the ‘Ethics and Integrity at the United Nations’ course, which in most organizations is mandatory for staff. OHR decided to utilize this existing course, which is available to all staff on the you@fao platform since May 2016.</p> <p>The design of an e-learning course on the prevention fraud and corruption was envisaged and budgeted for 2017</p> <p>Ombudsman and Ethics Office:</p> <p>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).</p> <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 , Subregional directors and regional senior managers.</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.</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.</p> <p>For the year 2017, the Ethics Office already plans to provide trainings in 15 Country Offices by video conferences, to conduct face to face</p>

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				trainings at FAO headquarter in ten divisions and to conduct face to face trainings in ten Country Offices.
7	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	Agreed but pending action
8	The updated Guidelines on administrative investigations have not yet been issued as the internal review process prior to promulgation is pending. The Committee is concerned that the absence of promulgated procedures expose additional risks for the Organization. It therefore strongly recommends that management give priority to complete the necessary internal reviews and promulgate the update as soon as possible.	2015 report, para. 31	ODG	Implemented
				The guidelines were issued on 15 February 2017.