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FINANCE COMMITTEE

Hundred and Forty-seventh Session

Rome, 5 - 9 November 2012

The Charter of the Office of the Inspector General

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EXECUTIVE SUMMARY

- An update of the current Charter of the Office of the Inspector General (OIG) is proposed, primarily to add information required in internal audit charters under recent updates of the International Standards for the Professional Practice of Internal Auditing, the global standards to which OIG adheres in its auditing activities. The additional information relates to the definition of internal audit and related assurance and consulting services, annual confirmation of independence within the Organization, reporting on the status of past internal audit recommendations and reporting on independent quality assurance of the audit function. This information reflects current practice adopted by OIG.
- The proposed changes were prepared by OIG, reviewed earlier and endorsed by the FAO Audit Committee, and agreed by the Director-General.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Director-General seeks from the Finance Committee its advice concerning the recommended update of the Charter prior to its finalization.

Draft Advice

- **The Committee concurred with the proposed update of the Charter of the Office of the Inspector General, as agreed by the Director-General and endorsed by the FAO Audit Committee, noting that the changes respond to recent changes in international professional standards for internal auditing.**

Introduction

1. The Charter of the Office of the Inspector General (OIG) is promulgated as Appendix A of Manual Section 107 – Office of the Director-General. The current Charter is based on one approved by the Director-General and presented to the Finance Committee at its 93rd session in September 1999 prior to its issuance. The Charter has been revised twice since then: in 2009 to separate out the different responsibilities of audit and investigation and refer to the nature of consulting services provided as recommended by a 2007 independent quality assurance review of OIG’s auditing activities; and in 2011 to incorporate a new report disclosure policy adopted by the Council at its 139th session.

Further Proposed Updates

2. Since the last revision, a 2011 independent audit quality assurance review made a number of recommendations for updating the text of the Charter to fully conform to recent updates of the International Standards for the Professional Practice of Internal Auditing, the global standards to which OIG adheres for its auditing activities, with regard to what should be included in internal audit charters. OIG’s own internal review also identified some other developments in the Standards which would warrant an update of the Charter text.
3. The updated text relates to the definition of internal audit and related assurance and consulting services, annual confirmation of independence within the Organization, reporting on the status of past internal audit recommendations and reporting on independent quality assurance of the audit function. This information reflects current practice adopted by OIG.
4. The proposed changes to the Charter were also presented to and endorsed by the FAO Audit Committee.
5. The specific text changes proposed for the Charter are shown in the annex to this document.

Annex

<u>CURRENT TEXT SHOWING CHANGE IN TRACK MODE</u>	<u>RATIONALE</u>
<p style="text-align: center;"><u>Appendix A</u></p> <p style="text-align: center;"><u>Charter for the Office of the Inspector General</u></p> <p style="text-align: center;">I. Mission</p> <p>1. The Office of the Inspector General provides oversight of the programmes and operations of the Organization, through internal audit and investigation.</p> <p>2. The Office of the Inspector General has responsibility for monitoring and evaluating the adequacy and effectiveness of the Organization's system of internal control, financial management and use of assets. The Office provides the Director-General and the functions and programmes audited with independent, objective assurance and consulting services designed to add value and improve the Organization's operations. It helps the Organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and internal governance processes.</p>	
<p>3. The Office of the Inspector General has been vested with the authority to investigate allegations of irregularities in the programmes and operations of the Organization as defined under Paragraph 710 of this Charter. The Office informs the Director-General and Senior Management of lessons learned, and promotes policies and activities that enhance the integrity of FAO's operations.</p>	Updated for proposed change to later paragraphs
<p style="text-align: center;">II. Scope of the Work</p> <p>4. The Office of the Inspector General and the unit dealing with evaluation, together, provide comprehensive internal oversight coverage of the Organization. The External Auditor, with whom the Office of the Inspector General cooperates, provides complementary external oversight.</p>	
<p style="text-align: center;">A. AUDIT</p> <p>5. <u>Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the</u></p>	Additional paragraphs on the definition of internal audit to meet: (1) International Standard for the Professional Practice of Internal Auditing 1000 which

<p>effectiveness of risk management, control, and governance processes.</p> <p>6. <u>Assurance services involve an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.</u></p>	<p>requires that “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.” and 1000.A1 which requires that “The nature of assurance services provided to the organization must be defined in the internal audit charter.”</p> <p>These updates will address two priority recommendations of OIG’s 2011 independent audit quality assurance reviewer to ensure full conformity with international standards.</p> <p>The text used for proposed new paragraph 5 is exactly the Definition of Internal Auditing as currently adopted by the IIA.</p> <p>The text used for proposed new paragraph 6 is exactly that used for “assurance services” in the Glossary of the International Standards.</p>
<p>7. The Office of the Inspector General determines whether the Organization's network of risk management, control and internal governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:</p> <ul style="list-style-type: none"> ➤ risks are appropriately identified and managed; ➤ interaction with the various governance groups occurs as needed; ➤ significant financial, managerial and operational information is accurate, reliable and timely; ➤ employee actions comply with the legal and regulatory framework including applicable policies, standards and procedures - especially, with respect to the receipt, custody and disbursement of funds and other resources of the Organization and conformity with the appropriations or other financial provisions voted by the Conference; ➤ the Organization acquires its resources economically, uses them efficiently, and protects them adequately; 	

<ul style="list-style-type: none"> ➤ programmes, plans and objectives are achieved; ➤ quality and continuous improvement are fostered in the Organization's control process; and ➤ significant legislative or regulatory issues impacting the Organization are recognized and addressed properly. <p>8. Opportunities for improving management control, profitability value, and the Organization's image may be identified during audits. They will be communicated to the appropriate level of management.</p>	<p>Amendment to apply a more appropriate term in FAO's context.</p>
<p>9. <u>In addition to the Office of the Inspector General's assurance services, it provides the organization with advisory and related client service activities. The nature and scope of these services are agreed with the client, and are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.</u></p>	<p>Additional paragraph to meet the requirement of Standard 1000.C1 which requires that "The nature of consulting services must be defined in the internal audit charter". OIG prefers to use the term "advisory and related services" to "consulting services" to avoid confusion or misinterpretation within the Organization.</p> <p>This update will address one priority recommendation of OIG's 2011 independent audit quality assurance reviewer to ensure full conformity with international standards.</p> <p>The text used for the proposed new paragraph closely follows that used for "consulting services" in the Glossary of the International Standards.</p>
<p style="text-align: center;">B. INVESTIGATION</p> <p>10. The investigation unit of the Office of the Inspector General:</p> <ul style="list-style-type: none"> ➤ investigates allegations of violations of FAO's regulations, rules (including the Standards of Conduct for the International Civil Service) and administrative provisions related thereto, i.e. fraud and unsatisfactory conduct by staff, as well as fraudulent and corrupt activities by third parties involved in programmes and operations of the Organization, in a professional manner with impartiality and fairness and ensures that results are transmitted to the appropriate office; ➤ reviews investigative findings to identify trends related to fraud and misconduct and 	

<p>weaknesses in the internal control environment;</p> <ul style="list-style-type: none"> ➤ promotes the implementation of mechanisms, practices, regulations and policies that encourage an ethical working environment, enhance the integrity of FAO's operations and prevent the recurrence of misconduct and fraudulent activity; ➤ ensures that FAO staff and other relevant parties receive training that incorporates the lessons learned from investigative findings and encourages awareness of regulations and policies that promote integrity and prevent fraud and misconduct; and ➤ coordinates with other international organizations to increase cooperation in combating fraud, and developing integrity programmes and strategies. <p>11. Please click here for the Guidelines for Internal Administrative Investigations by the Office of the Inspector General issued in AC2011/04 on 9 February 2011.</p> <p>http://www.fao.org/aud/28001-0a0e90621d4a45967ca63ad30b23c98b8.pdf</p>	
<p style="text-align: center;">III. Authority</p> <p>12. The Office of the Inspector General shall have, in accordance with applicable practice standards, full, free and prompt access to all accounts, records, electronic data, property, personnel, operations and functions within the Organization and to the Audit Committee. Staff at all levels shall cooperate fully in making available any relevant material or information requested during the course of a review.</p> <p>13. The Office of the Inspector General is authorized to communicate directly with all levels of staff and management in order to discharge its responsibilities. The Inspector General shall be advised of any breakdown of the Organization's financial control system.</p> <p>14. The Office of the Inspector General shall allocate assigned resources, set frequencies, select subjects, determine scope of work and apply those techniques required to accomplish its objectives in accordance with a formal plan of work which has received the concurrence of the Director-General.</p> <p>15. Staff of the Office of the Inspector General shall not have operational responsibilities for activities subject to audit by that Office. Specifically, they shall not:</p> <ul style="list-style-type: none"> ➤ perform any operational duties for the Organization; ➤ initiate or approve transactions external to the Office of the Inspector General; or 	

<p>➤ direct the activities of any staff member external to the Office of the Inspector General, except to the extent that such staff members have been appropriately assigned to auditing teams or to otherwise assist the Office of the Inspector General.</p> <p>16. The Office of the Inspector General shall be available to receive complaints or information concerning the possible existence of fraud, waste, abuse of authority or other misconduct by FAO staff and non-staff personnel, as well as allegations of fraudulent activity by third parties participating in FAO activities and programmes. Complainants will be provided confidentiality and no reprisals shall be taken against staff members providing such information, unless it is determined that the information was provided with the knowledge that it was false or with the intent to misinform.</p>	
<p style="text-align: center;">IV. Accountability and Independence</p> <p>17. The Director-General shall appoint a technically and professionally qualified individual as Inspector General after consultation with the Finance Committee. Likewise, the Director-General shall consult with the Finance Committee before the termination of the incumbent of that Office.</p> <p>18. To provide for the independence of the Office of the Inspector General, its staff report to the Inspector General, who reports directly to the Director-General.</p>	
<p>19. At the discretion of the Inspector General, any audit report or any other issue may be submitted to the Finance Committee together with the Director-General's comments thereon and be made available to other interested member states.</p>	
<p>20. <u>The Inspector General will confirm to the Finance Committee, at least annually, the organizational independence of the internal audit activity.</u></p>	<p>Additional paragraph to reflect Standard 1110 that requires that “The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.” The additional text closely follows that of the Standard.</p> <p>The addition also reflects current practice whereby OIG’s Annual Reports contain this confirmation and it is mentioned in the oral presentations to the Finance Committee.</p>

<p style="text-align: center;">V. Responsibility</p>	
<p>21. The Inspector General has responsibility to:</p> <ul style="list-style-type: none"> ➤ maintain an adequate professional audit and investigation staff with sufficient knowledge, skills and experience to meet the requirements of the Charter; ➤ develop a flexible biennial audit plan, <u>updated annually</u>, using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan <u>and any annual update</u> to the Audit Committee for review and to the Director-General for concurrence; ➤ implement the biennial audit plan, and, as appropriate, carry out any special tasks or projects; ➤ <u>issue periodic reports to the Audit Committee and Director-General on the status of implementation of the biennial audit plan, and the impact on the plan and associated risk coverage of any significant interim changes in audit resources, organization risks or priorities;</u> ➤ establish a quality assurance <u>and improvement</u> programme by which the Inspector General assures the operation of internal auditing activities; ➤ <u>communicate to the Audit Committee and the Director-General on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years;</u> ➤ perform consulting and advisory services to assist management in meeting its objectives; ➤ issue periodic reports to the Audit Committee and Director-General summarizing results of audit and investigative activities; ➤ keep the Audit Committee informed of emerging trends and successful practices in internal auditing and investigations; ➤ provide a list of significant measurement goals and results to the Audit Committee; ➤ maintain secure mechanisms to allow individuals to submit confidential allegations of potential fraud and misconduct in FAO's programmes and operations; ➤ maintain the security and confidentiality of all information and documentary and physical evidence related to investigations; 	<p>The addition reflects actual practice.</p> <p>The addition reflects actual practice, which had responded to recommendations of the Audit Committee concerning analysis of impact of changes to established plans.</p> <p>The addition reflects the full title of the programme, consistent with Standards terminology.</p> <p>The addition reflects actual practice as well as the requirements of Standard 1320 which requires that "The chief audit executive must communicate the results of the quality assurance and improvement program to senior management".</p>

<ul style="list-style-type: none"> ➤ provide confidentiality of the identity of the individuals and any information that could lead to their identification where there is a reason to believe that individuals may be at risk, unless it is determined that the information was wilfully provided with the knowledge that it was false or with intent to misinform; ➤ investigate alleged reprisals taken against staff members who cooperate with investigations; and ➤ submit investigative findings to appropriate bodies for decision and disseminate lessons learnt. 	
<p style="text-align: center;">VI. Communication of Results (Reporting and Monitoring)</p> <p style="text-align: center;">A. AUDIT</p> <p>22. The Office of the Inspector General shall report the results of its audit work and make recommendations to management for action with a copy to the Director-General and the External Auditor. All audit reports shall be available to the Audit Committee.</p> <p>23. <u>The Office of the Inspector General shall seek management comments on draft versions of its audit reports, information on corrective actions to address audit recommendations and a timetable for their completion, and explanation for any corrective action that will not be implemented, before the final versions of the reports are issued.</u></p> <p>24. The Director-General shall ensure that all recommendations from the Inspector General are responded to by the responsible functional unit and implemented as deemed appropriate.</p> <p>25. <u>The Office of the Inspector General shall report at least annually to the Director-General and to the Audit Committee on the status of implementation of agreed audit recommendations.</u></p>	<p>Additional paragraph to communicate current practice.</p> <p>Additional paragraph to reflect Standard 2500 which requires that “The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.”</p> <p>The current practice is six monthly reporting (hence the reference to “at least annually”).</p>
<p style="text-align: center;">B. INVESTIGATION</p> <p>26. The Office of the Inspector General shall report the results of its investigative work to the</p>	

<p>appropriate office as designated by the Director-General and make recommendations to management for action.</p> <p>27. The Office of the Inspector General shall report <u>at least</u> annually to the Director-General and to the Audit Committee on the status of the organizational response to the results of investigative work.</p>	<p>Change to make this paragraph consistent with proposed new paragraph 25 above.</p> <p>The current practice is six monthly reporting (hence the reference to “at least annually”).</p>
<p style="text-align: center;">C. ANNUAL REPORTING</p> <p>28. The Inspector General shall submit a summary report annually to the Director-General with a copy to the External Auditor on the activities of the Office of the Inspector General, including the orientation and scope of such activities, <u>the results of the quality assurance and improvement programme</u>, as well as comments on the implementation status of recommendations. This report shall be simultaneously submitted to the Finance Committee together with any further comments deemed necessary and be made available to other interested member states.</p>	<p>Additional text to reflect Standard 1320 which requires that “The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board”.</p>
<p style="text-align: center;">D. REPORT DISCLOSURE</p> <p>29. The Inspector General’s annual report shall be a publicly available document in all official languages of the Organization and will be posted on the Organization’s website in accordance with its disclosure policies for documents of the Council and its Committees. This will include posting on the Office of the Inspector General’s webpage in the Organization’s website.</p> <p>30. The Inspector General will make the Office’s individual audit reports and reports of lessons learned from investigations, once issued in final format, and in their original language of issue, available to Permanent Representatives accredited to the Organization upon request in writing for a specific report. The reports will be made available, for reading at the Office of the Inspector General, without copies being made or taken away. This policy shall apply to reports issued on or after 12 April, 2011. <u>Permanent Representatives will be advised, by the middle of each quarter, of reports issued in final format in the previous quarter.</u></p> <p>31. Permanent Representatives shall treat any individual audit report received under this policy as confidential. Requests for access shall confirm that access will be employed for internal purposes only.</p> <p>32. Where disclosure of the contents of an audit or lessons learned report would be inappropriate</p>	<p>Changes in disclosure policy as requested by FC in May 2012 and endorsed by Council in June 2012.</p>

<p>for reasons of confidentiality, or where it could place in jeopardy the safety and security of any individual, or run the risk of violating the due process rights of individuals, the report may be redacted or in extraordinary circumstances, the report may be withheld at the discretion of the Director-General acting on the advice of the Inspector General, who shall provide the reasons for such action to the requesting Permanent Representative.</p> <p>33. Requests for access will normally be responded to, either by making a copy of the report available to the requesting Permanent Representative for viewing or advising that it must be withheld, within three weeks of receiving the written request. The requesting Permanent Representative will be advised as soon as possible by the Inspector General, but not later than three weeks of the request, if an extension of time is required to make the report available. The period will be extended where the internal audit or lessons learned report in question contains findings related to a specific State. In such cases, the Inspector General shall notify the Permanent Representative of that State within two weeks of receiving a request for the report. The Inspector General shall make available, under the same conditions in paragraph 30 and subject to any redactions made in accordance with paragraph 32, a copy of the internal audit report to the Permanent Representative of that State for viewing during a period of two weeks after the date of notification. If that Permanent Representative wishes to provide written comments to the Inspector General on the report within this two week period, those comments will be made available, along with the report and any further comments which the Inspector General has made, to the requesting Permanent Representative within a further two week period.</p> <p>34. The Inspector General shall include in his/her annual report information on the implementation of the report disclosures made in accordance with paragraph 30 above including, inter alia: the number of requests to make reports available; the outcomes of those requests; and confirmation of requestors to adherence to the principle of confidentiality for the information disclosed in accordance with paragraph 31 above.</p> <p>35. Cases of redaction or withholding of reports will be reviewed on an ex post basis by the Audit Committee at each of their meetings and their conclusions will be included in their annual report.</p>	
<p style="text-align: center;">VII. Practice Standards</p> <p>36. The Office of the Inspector General shall, <u>in its internal audit work</u>, meet or exceed <u>the</u></p>	<p>Amendments proposed to distinguish the applicability</p>

<p>requirements of the International standards for the p Professional pPractices Framework (including the Standards of i Internal a Auditing (including and the associated professional Code of Ethics) as adopted by the Audit and Oversight Services of the United Nations and Specialized Agencies.</p>	<p>of the paragraph to OIG's internal audit work (and not the investigative function, dealt with in the following paragraph) and ensure accurate reference to the Framework adopted by the Audit and Oversight Services of the United Nations and Specialized Agencies.</p> <p>The changes will also address a recommendation of OIG's 2011 independent audit quality assurance reviewer to give clearer recognition to the Framework.</p>
<p>37. Investigations shall be conducted in accordance with the applicable FAO regulations, rules, and other administrative provisions, as well as the internationally accepted Guidelines for Investigations endorsed by the investigative offices of international organizations and multilateral financial institutions.</p>	