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FINANCE COMMITTEE

Hundred and Thirty-eighth Session

Rome, 21 – 25 March 2011

FAO Audit Committee – Annual Report to the Director-General for 2010

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

Mr E. Ouko

Chairperson, FAO Audit Committee

Tel: +216 71102035

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EXECUTIVE SUMMARY

- The Director-General is pleased to provide the Finance Committee with the Audit Committee's 2010 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 that the Committee's Chairperson or another member, as decided by the Committee, will be invited to present the Annual Report to the Finance Committee.
- The report covers the activities of the Audit Committee during 2010 and highlights a number of areas for Management's attention:
 - Strengthening the Integrity Framework of the Organization
 - Implementing the Enterprise Risk Management Project
 - Continuing efforts to improve the rate of implementation of past recommendations
 - Follow-up of External Audit Recommendations
 - Revision to the Terms of Reference of the Audit Committee
 - Finalization of AUD's Investigation Guidelines
 - Finalization of a separate FAO Whistleblower Protection Policy

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the FAO Audit Committee's Annual Report for 2010.

Draft Advice

- **The Finance Committee takes note of the FAO Audit Committee's Annual Report for 2010.**

INTRODUCTION

1. As an independent advisory expert body, the FAO Audit Committee assists the Director-General (DG) in fulfilling his oversight and governance responsibilities. The Committee helps ensure that the Director-General receives independent and objective assurance on the effectiveness of the Organization's controls, risk management, governance and accountability processes. It accomplishes this by reviewing plans, progress and results of related activities performed by the Office of the Inspector General, the External Auditors and Management of the Organization. It also advises the Director-General on matters of policy requiring corrective action or improvements with respect to audit, investigation and risk management.
2. According to its Terms of Reference, the Director-General is to provide a copy of the Committee's annual report to the Finance Committee, together with his/her comments thereon, if any. The Chair of the Committee presented the Committee's 2009 report to the Finance Committee at its autumn sitting on 28th October 2010.
3. This Eighth Annual Report of the Committee to the DG covers the period from 1 January 2010 to 31 December 2010. The report provides an overview of the Committee's activities, the important matters that arose and action taken by AUD and management during 2010.
4. The composition of the Committee is provided in Annex 1.

FUNCTIONING OF THE COMMITTEE

5. During the reporting period, the Committee convened in March, July and December 2010 at FAO Headquarters, meeting over two days each time. The Committee interacted with FAO managers from Finance, Procurement, Operations, Legal, the Ethics Office and members of the IPA Reform Group to obtain briefings and updates on a wide range of issues in line with its mandate.
6. At the conclusion of each meeting, the Committee met with the Director-General's designated focal point to brief him and obtain his feedback on the key issues raised during its scheduled meetings. For the March 2010 and July 2010 meetings, it met respectively with the Deputy Director-General (DDG) of Knowledge and of Operations. However, for the December 2010 meeting, the Director-General was represented by the Assistant Director-General, CS who was OIC in the DDG-O's absence. On each occasion, the Committee briefed the focal point on the outcome of its meetings. During such briefings, the Committee drew attention to a number of matters, key amongst which are discussed in this report.
7. The Committee discharged its duties in compliance with its current Terms of Reference (Annex 2). The Committee considers that it satisfactorily achieved the objectives of its Terms of Reference. A summary of the results from the Committee activities in 2010 follows.

FOLLOW-UP ON THE COMMITTEE'S 2009 REPORT

8. The Committee reviewed the updated implementation status of key recommendations of its 2009 report. The Committee notes that actions have been taken by Management on all except the following, which are in progress:
 - **Enterprise Risk Management (ERM):** the Committee notes that in 2010, the overall responsibility for implementation of the ERM project under the IPA was transferred to OSP. Since then, OSP, with assistance from an AUD Senior Auditor, has further developed its approach and finalized the detailed planning to begin implementing the project in the first quarter of 2011. Whilst AUD's support to the ERM Project and the IPA risk self-assessment provides an important and recognized value-addition to its audit assurance work for the Organization, undue drain on its resources and deviation from its planned audit coverage should be avoided.

- **Implementation of Recommendations:** The Committee noted progress reported by the Organization in addressing past internal audit recommendations related to “high risks” and action taken in recent months by the Director-General and the Senior Management Team to generally improve the rate of implementation of all recommendations. Some of the “high risk” recommendations related to IT disaster recovery and business continuity. The Committee welcomes a recent initiative, being assisted by AUD, to finalize by early 2011 an overall business continuity framework for the Organization according to UN System best practices. Improvement in the rate of audit recommendation implementation remains a work-in-progress and the Committee encourages Senior Management Team to maintain its efforts in this regard during 2011.

MATTERS ARISING FROM 2010

9. During its 2010 meetings, the Committee reviewed a number of other issues and provides advice to the Director-General on these as indicated below.
10. **Integrity Framework:** The Committee notes the initiatives to strengthen the integrity framework and the progress being made on different aspects. One of the key aspects of the integrity framework that the Committee considers important is the promotion of integrity in the behaviour of third parties (vendors) who conduct business with FAO. In view of the greater delegation of responsibilities to decentralized offices and a growing portfolio of projects requiring substantial procurement in the field, the Committee recommends the consideration of policies and procedures to promote third party vendor integrity, including consistent inclusion of “anti-corruption” and “right to audit vendor records” clauses in vendor contracts; and to clarify what the Organization’s response should be when it is determined that vendors have engaged in improper activities during tenders or in the course of contract implementation.
11. **Follow Up of External Audit Recommendations:** The Committee was unable to meet with the External Auditor due to their unavailability. The Committee is informed that the external audit opinion and management letter for the 2008-2009 financial audit was only made available at the end of November 2010. Management still needs time to review and respond to the recommendations in the management letter.
12. **Terms of Reference (TORs) of the Audit Committee:** It is best practice to periodically review the TOR of an Audit Committee. A three-yearly review of Audit Committee TORs has been recently recommended by the Joint Inspection Unit. Since the last review in 2006, the Committee considers that a review is overdue to benchmark with the Representatives of Internal Audit Services of the United Nations and Multilateral Institutions (RIAS) Position Statement on “Generally Accepted Audit Committee Principles and Identified Good Practices”, as well as best examples of current audit committee TORs of other UN specialized agencies.

MATTERS RELATING TO AUD

13. In 2007, the Institute of Internal Auditors (IIA) completed a quality assurance review of the internal audit and concluded that AUD ‘partially conformed’ to the IIA’s International Standards for the Professional Practice of Internal Auditing (Standards). The review made several recommendations for improvement. AUD implemented all recommendations that were addressed to it by the end of 2010. In particular, the Committee notes with satisfaction that the Quality Assurance and Improvement Programme have been satisfactorily completed.
14. **Risk-based Audit Assurance:** the Committee notes that AUD has begun implementing a Risk-Based Audit Plan with the 2010-2011 biennium plan aimed at providing assurance on high risk areas of the Organization, with the additional resources provided under the Immediate Plan of Action (IPA). The Committee considers that the methodology applied should allow the audit plan to stay aligned with the key risks of the Organization, and to provide an appropriate basis for monitoring the assurance coverage achieved over time.

15. **Investigative functions:** The Committee made suggestions in 2010 on enhancing data used for monitoring investigation activities and suggested that AUD reviews its triage system for processing complaints to ensure that it does not unintentionally exclude medium level complaints from review and noted that these had been implemented by AUD. The Committee continues to encourage the finalization of AUD's Investigation Guidelines and the finalization of a separate FAO Whistleblower Protection Policy that draws on the experiences of other organizations.

16. **AUD staffing:** The Committee notes that, during 2010, AUD successfully filled all but one of its eight vacancies that had existed at the end of 2009. While recruitment remains underway at the end of 2010 for the remaining vacancy, plus three others arising during the last six months as a result of internal promotions, the Committee considers that compensating measures taken so far by AUD, and the internal monitoring processes in place, should allow it to complete the level of coverage projected in the 2010-2011 Risk-Based Audit Plan. The Committee welcomed the fact that during 2010 AUD was able to diversify its geographical representation and maintain an overall even gender balance, while ensuring that the selected staff had the appropriate qualifications and experience.

ACKNOWLEDGEMENT

17. The Committee acknowledges the good cooperation and assistance received from Management, from the Inspector General and his staff, and other FAO staff providing information briefings, during its 2010 meetings.

COMPOSITION OF THE COMMITTEE

1. Following a recommendation of 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 Audit 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.

3. The Committee's 2010 composition was as follows:

Members:	Mr. E. Ouko – Chairman, AFDB		
	Mr C. Andreasen, UNICEF		
	Mr A. Khan, WFP		
	Mr K. Langford, WHO (to February 2010)		
	Ms F. Ndiaye, OIOS (from June 2010)		
	Mr S. Zimmermann, World Bank		
Secretary (ex-officio)	Inspector General		

Appendix C

FAO's Audit Committee

1. INTRODUCTION

The Committee operates as an advisory panel to the Director-General and to the Office of the Inspector General (AUD). Its aim is to assist the Organization in gaining house-wide acceptance of the importance and value of the internal audit, inspection and investigation functions and provide the Director-General with assurance that these functions are operating effectively and efficiently. The Committee will:

- i) appraise the adequacy and effectiveness of the internal audit services and its strategies, priorities and workplans and suggest potential audit areas to address the Organization's risks;
- ii) review progress in the implementation of AUD's action plans which have been agreed upon; and
- iii) take note of the reports of the External Auditor and monitor timely follow-up of his/her recommendations.

2. TERMS OF REFERENCE

The Committee has the following responsibilities:

- a) Ensure the independent role of the Office of the Inspector General (AUD);
- b) Review and provide advice on the biennial work plans of AUD in the areas of audit and inspection;
- c) Review significant risks facing the Organization;
- d) Assess the effectiveness and adequacy of internal audit coverage with due regard to external audit coverage, to ensure that emphasis is placed on high-risk areas;
- e) Review the reports of AUD and the External Auditor (except for reports specifically requested by donors), assess the implications of their findings on existing policies, systems and procedures and actively oversee and monitor the timely implementation of the audit recommendations;
- f) Satisfy itself that AUD adheres to the international internal auditing standards adopted by the heads of audit of the United Nations, the Specialized Agencies as well as by the World Bank and other entities within the UN system;
- g) Review investigation findings of presumptive or actual mismanagement, irregularities and fraud, and monitor follow-up responsibilities;
- h) Review the AUD annual activity report to the Director-General subsequently provided to the Finance Committee;
- i) Review the performance and effectiveness of AUD, ensuring consistency with approved plans and the Charter of the Office of the Inspector General;
- j) Satisfy itself that the resources available for AUD are sufficient to meet the Organization's needs;
- k) Provide advice to the Director-General and the Inspector General as it deems appropriate; and

- l) Submit its own annual report to the Director-General who will subsequently provide the FAO Finance Committee with a copy.

3. COMPOSITION OF THE COMMITTEE

The Committee consists of five external members and a Secretary *ex-officio*. All members and the secretary are appointed by the Director-General. Members are selected on the basis of their qualifications as senior audit and/or investigation professionals. The Committee elects its own Chairperson. The Inspector General will provide secretariat services to the Committee.

At the discretion of the Chairperson, the External Auditor may be invited to attend meetings of the Audit Committee.

4. TERM OF OFFICE

Members serve for a two-year period, which may be renewed at the discretion of the Director-General for one or more years.

5. MEETINGS

- a) At the discretion of the Chairperson, the Committee may meet three to four times each year. Additional meetings may be called by the Chairperson if deemed appropriate.
- b) The Inspector General has the right to request the Chairperson of the Committee to convene a meeting if necessary.
- c) The presence of all five members is expected at each meeting but meetings can take place with a quorum of three members. The Secretary to the meeting (Inspector General) will have no voting rights.

6. REPORTING AND AUTHORITY

The Committee reports to the Director-General and all reports of the Committee will be addressed to him. The Director-General will provide a copy of the Committee's annual report to the Finance Committee, together with the Director-General's comments thereon, if any. The Chairperson or another member, as decided by the Committee, will be invited to the Finance Committee session to present the Committee's annual report. The Committee will have the authority to:

- a) Obtain all necessary information and consult directly with the Inspector General and his staff.
- b) Access all reports and working papers produced by AUD.
- c) Seek any information it requires from any staff member and require all staff members to cooperate with any request made by the Committee.
- d) Obtain independent professional advice and secure the attendance of outside persons with relevant experience and expertise if considered necessary.

DIRECTOR-GENERAL'S COMMENTS ON THE AUDIT COMMITTEE

ANNUAL REPORT FOR 2010

1. The Director-General has taken note of the Audit Committee's findings and advice in its report for 2010, and welcomes the positive conclusions in respect of AUD. The Director-General also welcomes the Audit Committee's advice that most of the matters highlighted in the 2009 report have been addressed. With regard to pending matters from this report and other matters identified for attention in the 2010 report, the Director-General notes that the relevant units within FAO are giving these attention with a view to completing actions on them during 2011.