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联合国
粮食及
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des
Nations
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l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

FINANCE COMMITTEE

Hundred and Fifteenth Session

Rome, 25 - 29 September 2006

FAO Audit Committee (Internal) – Annual Report to the Director-General for 2005

An Audit Committee was established in April 2003. The Director-General has the pleasure to provide attached, for the information of the Finance Committee, the 2005 Annual Report of the Audit Committee. The Director-General wishes to express his appreciation for the work undertaken by the Audit Committee and for the advice provided.

For reasons of economy, this document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies, unless strictly indispensable.
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FAO Audit Committee (Internal)
Annual Report to the Director-General for 2005

I. INTRODUCTION AND BACKGROUND

1. This is the third annual report of the Audit Committee following its establishment in April 2003. It provides an overview of the Committee's activities, the important issues that have arisen and the actions taken by AUD and other stakeholders involved in the audit processes. Background information on the Committee is provided in Annex 1.

II. COMMITTEE'S MODUS OPERANDI

2. The Committee met four times during 2005. The External Auditor was invited to the April and the December meetings and the Director-General met with the Committee at the December session. The main topics considered at the meetings were as follows:

- the Inspector General's reports on the activities of AUD;
- AUD's plan of work and delivery compared to the plan;
- AUD's budget and staffing;
- the potential impact on FAO of the recommendations of the Independent Inquiry Committee on the Oil-for-Food Programme and the Outcome Document of the 2005 World Summit;
- FAO's involvement in major programmes, e.g. the Iraq Trust Fund (UNDG ITF), desert locust activities and tsunami operations, among others;
- audit coverage of financial information systems and decentralized offices;
- investigations;
- the status of implementation of internal and external audit recommendations;
- implementation of the Committee's recommendations;
- the Committee's discharge of its functions and responsibilities; and
- selected audit reports.

3. A summary record was prepared for each of the four meetings and cleared with the Committee members.

III. SPECIFIC OBSERVATIONS OF THE AUDIT COMMITTEE ON THE ACTIVITIES OF THE OFFICE OF THE INSPECTOR GENERAL

A. AREAS REVIEWED AND DETAILED ACCOMPLISHMENTS

4. During 2005, the Committee made substantial progress in relation to the objectives and responsibilities outlined in its Terms of Reference. In particular, it contributed to the following aspects:

- increasing awareness of AUD and its contribution within FAO by stimulating managers' involvement and commitment to the audit process. In this regard, the Committee continued to pursue the timely implementation of internal and external audit recommendations. While recognizing the significant progress made in the year, the Committee expressed concern that a number of recommendations were taking too long to close and suggested more aggressive effort in closing them with the relevant ADGs, seeking assistance from the Deputy Director-General or the Director-General, as necessary. As a result of the Committee's suggestions, the Director-General requested that sessions of the Programme and Policy Advisory Board (PPAB) and of the Senior

Management Meeting (SMM) be arranged to reinforce his instructions on implementation of audit recommendations and other audit issues, once the new senior management team was in place.

- Strengthening FAO's operations by ensuring the necessary management support and prompt action on some critical AUD observations, e.g. information risk assessment and business continuity planning, relating to which the Committee noted progress made on the recommendations and suggested that AUD revisit the area in 2006. The Committee continued to follow the progress of the Working Group on Letters of Agreement, urging faster resolution.
- Bringing to the Director-General's attention the Committee's concern over the potential effect of insufficient non-staff resources on AUD's ability to undertake its review programme.
- Assisting the Organization in strengthening audit and inspection strategies by providing direction on the risk analysis and the resulting revised audit plan for 2005, as well as AUD's activities relating to (i) tsunami operations, (ii) the Iraq Trust fund, (iii) the desert locust programme and (iv) decentralized offices. With regard to tsunami activities, the Committee emphasized the need to continue coordination with the Evaluation Service (PBEE).
- Providing guidance on the potential applicability to FAO of oversight recommendations emanating from the reports of the Independent Inquiry Committee on the Oil-for-Food Programme and the Outcome Document of the 2005 World Summit.
- Reviewing and providing guidance on AUD's work relating to the revised work plan for 2005. The Committee noted that during 2005 several planned reviews had been replaced by new special requests for reviews and investigations having higher priority. The Committee started discussions on whether audit resources should be diverted to investigations at the expense of planned audits.
- Discussing and providing advice on the proposed risk assessment and audit plan for 2006-07. The Committee began discussing this item at its meeting in December and plans to conclude on it at its first or second meeting in 2006.
- Supporting, reviewing and monitoring the implementation of the observations of the External Auditor to strengthen AUD, as well as other organizational areas, providing guidance, as necessary. This is a standard item on the Committee's agenda.
- Obtaining assurance from the External Auditor at the Committee's meeting in December 2005 that, up to that date, the external audit was progressing in a satisfactory manner and he was receiving full cooperation and documentation as required. The External Auditor also confirmed that no issue had arisen, up to that date, which could lead to qualification of the biennial accounts.
- Assessing whether FAO has procedures in place to properly address fraud allegations, cases are investigated in a timely manner, disciplinary action taken, where warranted, and the details of fraud cases are used to strengthen internal controls. The Committee reviewed the list of investigation reports noting that AUD had duly addressed allegations received.
- Noting and providing suggestions on the quarterly and annual reports of the Office of the Inspector General.

B. CONCLUSIONS

5. Based on the foregoing, the Committee concludes that:
 - i) the Office of the Inspector General has sufficient independence to ensure provision of objective audits and studies to management.
 - ii) AUD conducts its work in accordance with its Charter and generally adheres to appropriate Internal Audit Standards.
 - iii) Suspected mismanagement, irregularities and fraud are promptly investigated and reported upon with appropriate action taken by management.
 - iv) AUD's internal planning process for 2004 and 2005 duly considered significant risks facing FAO for effective audit coverage of its activities.
 - v) AUD and FAO management should continue to intensively pursue the implementation of outstanding recommendations. To obtain greater acceptance of the recommendations, the concept of Agreed Action Plans, in the place of recommendations, should be explored.
 - vi) AUD has duly addressed the issues on the internal audit function raised by the External Auditor in 2002.
6. The Committee analysed its own performance against its terms of reference and concluded that it had broadly achieved its objectives in 2005.

IV. WORK PROGRAMME OF THE FAO AUDIT COMMITTEE FOR 2006

7. The Committee's first focus in 2006 will be the 2006-2007 work plan and the significant risks of the Organization, in order to reach a conclusion on the effectiveness and adequacy of internal audit coverage to ensure that emphasis is placed on high-risk areas and to monitor that these plans are realized. It will continue to review investigation findings and all aspects related to allegations of mismanagement, fraud and irregularities.
8. The Committee will continue to focus on raising managers' awareness to improve the timeliness of their response and commitment to implementing audit recommendations. It will continue to review the older (over two years) open recommendations in order to resolve any obstacles, and will also focus on other significant recommendations of a more recent date. The status of recommendations as at 31 December 2005 is reported in Annex 2.
9. The Committee plans to continue the review of a number of individual audit reports in order to advise AUD on potential relevant improvements and provide advice on a variety of issues, including application of certain oversight recommendations in the reports of the Independent Inquiry Committee on the Oil-for-Food Programme and the Outcome Document of the 2005 World Summit, implementation of the audit plan, and the adequacy of AUD's budget to enable carrying out the necessary work to cover FAO's major risks.
10. The Committee will review resources expected to be allocated to AUD for the biennium 2006-07 from the perspective of cost/benefit, time taken per audit, risk analysis and other activities of AUD.
11. The Committee's composition will change in April 2006, with the replacement of one of the two external members, whose term of office ends in March 2006. The rest of the Committee is expected to remain unchanged.

Annex 1

BACKGROUND INFORMATION

- 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 (Internal) in April 2003. Its composition and terms of reference are set out in Manual Section 146 App. C.
- The Committee's composition is as follows:
 - Internal Members:**
 - Mr. D. Harcharik, Chairman
 - Mr. K. Mehboob, Permanent Member
 - Mr. G. Pucci, Permanent Member
 - Ms. L. Fresco, Rotating Member¹, or her alternate
 - Mr. I. Nomura
 - Ms. A. Lo Faso, Secretary
 - External Members:**
 - Mr. B. Kass², Senior Consultant and former Director of Internal Audit, WFP
 - Mr. P. Maertens³, Inspector General, European Investment Bank
- The Committee operates as an advisory panel to the Director-General and to the Office of the Inspector General with the aim of providing guidance and assistance. The Committee continued to focus on the following areas:
 - providing advice on the audit and inspection strategies, priorities and work plans of AUD taking into account the Organization's risks and needs;
 - reviewing progress in implementing audit recommendations and assessing the resulting remedial actions taken by auditees;
 - taking note of the plans of the External Auditor and the outcome of his work and monitoring timely implementation of his recommendations;
 - assessing the independent role of the Office of the Inspector General, AUD;
 - assisting the Organization gain house-wide acceptance of the importance and value of the internal audit, inspection and investigation functions.

¹ Appointed for a two-year term, extendible at the discretion of the Director-General, to be replaced on a rotational basis.

² Term of Office ends on 31 March 2006

³ Term of Office ends on 31 March 2007

Annex 2

OFFICE OF THE INSPECTOR GENERAL

Recommendations issued in 2000-2005Statistics and implementation status as at 31 December 2005

<u>Year of Issue</u>	<u>Total</u>	<u>Open</u>		<u>Ongoing</u>		<u>Closed</u>	
		<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
2000	410	0	0	3	0.7	407	99.3
2001	619	1	0.2	2	0.3	616	99.5
2002	458	9	2.0	24	5.2	425	92.8
2003	562	14	2.5	21	3.7	527	93.8
2004	312	12	3.9	30	9.6	270	86.5
2005	429	101	23.5	93	21.7	235	54.8
Six-year totals	2,790	137	4.9	173	6.2	2,480	88.9