



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Продовольственная и  
сельскохозяйственная  
организация  
Объединенных  
Наций

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

# FINANCE COMMITTEE

**Hundred and Twenty-eighth Session**

**Rome, 27 - 31 July 2009**

**FAO Audit Committee – 2008 Annual Report to the Director-General**

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

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### **EXECUTIVE SUMMARY**

- The Director-General is pleased to provide the Finance Committee with the Audit Committee's 2008 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 2008 and highlights a number of areas for Management's attention, i.e., independence, Enterprise Risk Management (ERM), implementation of recommendations, investigations and the establishment of an ethics officer/committee. The report also presents a number of observations, which include conflicting governance arrangements, quality assessment review and investigation guidelines.

### **GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE**

- The Finance Committee is invited to take note of the 2008 FAO Audit Committee Annual Report.

## Introduction

1. This is the sixth annual report of the Audit Committee (the Committee) following its establishment in April 2003. The report provides an overview of the Committee's activities, the important issues that arose and the actions taken by the Office of the Inspector General (AUD) and other stakeholders involved in oversight during 2008.
2. The Committee operates as an advisory panel to the Director-General and to AUD. It accomplishes this by reviewing plans, progress and results of related activities performed by; AUD, the External Auditors, the Administration and Management of the Organization. It may also advise the Director-General on matters of policy requiring corrective action or improvements with respect to audit, investigation and risk management.
3. The composition of the Committee is provided in Annex 1.

## Overall Appreciation of its Work

4. The Committee discharged its duties in compliance with its Terms of Reference (Annex 2). The Committee believes that it has satisfactorily achieved its objectives.
5. Relevant FAO managers participated in the proceedings of the Committee and the Deputy Director-General met regularly with the Committee.
6. The Committee was not able to interact with the External Auditor during the period under report. The new External Auditors of FAO were unavailable to meet with the Committee.

## Areas for Attention

7. The Committee identified a number of key issues that Management needs to address in 2009. These include:

### *Independence*

8. The Committee stresses the need for AUD to operate independently in developing and implementing its audit strategy, plans and deployment of its resources. This independence is a basic requirement for providing adequate and effective internal oversight to the Organization. Audit plans, once endorsed by the Committee and the Director-General, should ordinarily not be modified without full assessment of the impact on the delivery of the planned work programme. Any proposed changes to the plan together with the assessment should be provided to the Committee for its advice. The Committee noted a number of directives that were implemented without such impact assessment.
9. The Committee highlights the need for the Office of the Inspector General to develop a more comprehensive risk based audit plan for the 2010/2011 biennium. The plan needs to consider the Organization's risks from a more holistic approach, rather than cyclically as individual units (e.g., Headquarters, Decentralized Activities and Field Verification Unit).
10. The Committee took note of the Top Management reaction to the issues above which has been annexed to this report (see Annex 3).

### *Enterprise Risk Management*

11. AUD, the Institute of Internal Auditors, the Independent External Evaluation and the External Auditor have all identified the vulnerability of FAO due to the absence of systematic, comprehensive risk management processes. The Audit Committee fully supports this position. This is a core management function which is necessary for the Organization to better achieve its

business goals and objectives. Management needs to assume ownership of and give priority to implementing an Organization-wide enterprise risk management process.

#### *Implementation of Recommendations*

12. The Committee urges Management to improve the implementation of recommendations throughout the Organization. The Committee notes that some recommendations have been outstanding since 2002. AUD is encouraged to revisit the prioritization of outstanding recommendations taking into consideration the significance of individual recommendations to the Organization's mission.

#### *Investigations*

13. The Committee notes that AUD has mechanisms in place to investigate fraud, corruption and other misconduct. Allegations and cases are investigated in a reasonably timely manner. However, the Committee notes lengthy delays by Management in resolving and reaching a final decision in some cases after an investigation has been completed.

14. Although laudable efforts are made by AUD to conclude investigations and make recommendations to strengthen internal controls based on investigative findings, the Committee recommends additional emphasis by Management on the analysis and implementation of such recommendations.

#### *Ethics Officer/Committee*

15. The Committee notes that while it would be ideal to have clearly defined roles and responsibilities for the Ethics Officer and the Ethics Committee simultaneously, it would advise the Legal Counsel to expedite the recruitment of the Ethics Officer. The Committee notes that the Ethics Officer would be in a position to support the formation of the Ethics Committee and help define its role and responsibilities. The Committee encourages Management to use the arrival of the Ethics Officer to improve the disciplinary process and clarify the roles of each office involved. The Committee also encourages Management to implement fully a conflict of interest and financial disclosure policy for staff as soon as practicable.

### **Observations of the Audit Committee**

16. The Committee makes the following additional observations:

#### *Conflicting Governance Arrangements*

17. The Committee calls attention to the potential risk of mixing governance functions with management functions. It noted that while it is a governance function to obtain assurance that FAO has a well functioning system of enterprise risk management, its implementation is a core management function. Similarly, while it is a governance function to gain assurance that FAO staff uphold the highest ethical standards and that the Organization has a system to ensure the same, running the ethics system is a management function.

#### *Quality Assessment Review*

18. The Committee notes the efforts made by AUD to implement the recommendations arising from the 2007 quality assessment review by the Institute of Internal Auditors. It notes the development and implementation of a Quality Assurance and Improvement Plan (QAIP) and the progress made in complying with Institute of Internal Auditors' standards.

#### *Investigation Guidelines*

19. The Committee encourages the Organization to expedite the completion and implementation of its investigation guidelines, given the importance of such guidelines to a fair, efficient and transparent investigative process.

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*Periodic Reporting*

20. The Committee reviewed and provided suggestions on the quarterly and annual reports of the Office of the Inspector General.

*Charter for the Office of the Inspector General*

21. The Committee provided advice and input into a revision of the Audit Charter, which was presented to the Finance Committee for information in October 2008.

**Acknowledgement**

22. The Committee acknowledges the cooperation and assistance received from Management during its meetings.

## Annex 1

**COMPOSITION OF THE COMMITTEE**

1. Following a recommendation of the former External Auditor and in accordance with FAO's commitment to the 100<sup>th</sup> 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. The Committee's current composition is as follows:

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**Members: Mr E. Ouko, Chairman, AfDB**

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Mr C. Andreasen, UNICEF

Mr A. Khan, WFP

Mr K. Langford, WHO

Mr S. Zimmermann, IADB

Secretary: Inspector General

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**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:

- i) Ensure the independent role of the Office of the Inspector General (AUD);
- ii) Review and provide advice on the biennial work plans of AUD in the areas of audit and inspection;
- iii) Review significant risks facing the Organization;
- iv) 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;
- v) 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;
- vi) 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;
- vii) Review investigation findings of presumptive or actual mismanagement, irregularities and fraud, and monitor follow-up responsibilities;
- viii) Review the AUD annual activity report to the Director-General subsequently provided to the Finance Committee;
- ix) Review the performance and effectiveness of AUD, ensuring consistency with approved plans and the Charter of the Office of the Inspector General;
- x) Satisfy itself that the resources available for AUD are sufficient to meet the Organization's needs;
- xi) Provide advice to the Director-General and the Inspector General as it deems appropriate; and
- xii) 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

- i) 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.
- ii) The Inspector General has the right to request the Chairperson of the Committee to convene a meeting if necessary.
- iii) 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:

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



**DIRECTOR-GENERAL'S COMMENTS ON PARAGRAPH 8  
OF THE AUDIT COMMITTEE ANNUAL REPORT FOR 2008**

1. The Director-General has noted the Audit Committee's proposal in paragraph 8 of the report, that biennial audit plans, once endorsed by the Committee and the Director-General, should not be modified without a full assessment of the impact of this change on the delivery of the work programme. It is also proposed that any such changes to the plan, together with the related impact assessment, be sent to the Committee for its advice.
2. The Director-General considers that these proposals are overly stringent. If implemented, they would detract AUD from its role as a management tool supporting the Director-General in the execution of his constitutional mandate to maintain an effective internal control of financial transactions. This role is reflected in the Charter of the Office of the Inspector General, which provides in paragraph 2 that "*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.*"
3. This supporting role requires that the Director-General remain unfettered in his discretion to make special requests to the Office of the Inspector General whenever he deems it necessary. The proposal by the Committee, that any such requests deviating from the biennial work-plan be subjected to a full impact assessment and the advice of the Committee, would unduly restrain effective overall management of the internal financial control and internal audit which he has the responsibility to maintain under the Basic Texts, and for which he is ultimately accountable to Member Nations.
4. This proposal also runs counter to the spirit of the Charter of the Office of the Inspector General, which provides that the Inspector General develops "*a flexible biennial audit plan which is submitted to the Audit Committee for review and to the Director-General for concurrence.*" The Charter also specifies that the Inspector General should "*implement this biennial audit plan and, as appropriate, carry out any special tasks or projects.*" These provisions show that the Inspector General must accommodate specific requests made by the Director-General which, by definition, may be made on short notice.
5. It should also be noted that the International Standards for the Professional Practice of Internal Auditing, promulgated by the IAA and adopted by the internal oversight offices of the UN system, do not include any provisions going as far as the proposal made by the Audit Committee. Independence in these Standards is defined as "*the freedom from conditions that threaten the ability of an internal audit activity of the chief audit executive to carry out internal audit responsibilities in an unbiased manner.*"
6. The proposal by the Audit Committee appears to be based on a misconception of the respective roles of the External Auditor and the internal audit function. Unlike the External Auditor who reports to the Governing Bodies, the Inspector General remains accountable to the Director-General. Under the scheme proposed by the Audit Committee, there would be little difference between the role and mandate of the External Auditor and the internal audit function.
7. The views outlined above were discussed with the Inspector General and were brought to the attention of the members of the Audit Committee prior to the finalization of their report.