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FINANCE COMMITTEE

Hundred and Twenty-second Session

Rome, 22 – 30 May 2008

FAO Audit Committee (Internal) – Annual Report to the Director-General for 2007

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 2007 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.

FAO Audit Committee (Internal)

Annual Report to the Director-General for 2007

I. INTRODUCTION AND BACKGROUND

1. This is the fifth annual report of the Audit Committee following its establishment in April 2003. The report 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 during 2007. Background information on the Committee is provided in Annex 1.

2. As of 1 January 2008, the Committee will be reconstituted to consist of six external members and a secretary. Hence, three additional external members will join the three existing members.

II. COMMITTEE'S MODUS OPERANDI

3. The Committee met four times during 2007. 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;
- the quality assurance and improvement programme;
- the status of implementation of internal and external audit recommendations;
- the Investigation Guidelines;
- investigation reports;
- External Auditor's management letters;
- the impact of the Independent External Evaluation on AUD's working methods and work plan;
- the Charter for the Office of the Inspector General;
- the Local Audit Programme;
- implementation of the Committee's recommendations;
- the Committee's discharge of its functions and responsibilities; and
- selected audit reports.

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

III. OVERALL APPRECIATION OF ITS WORK IN 2007

5. The Committee discharged its duties in compliance with its Terms of Reference.

6. The Committee analysed its own performance against its Terms of Reference and concluded that it satisfactorily achieved its objectives.

IV. SPECIFIC OBSERVATIONS OF THE AUDIT COMMITTEE

A. AREAS REVIEWED AND DETAILED ACCOMPLISHMENTS

7. During 2007, the Committee worked in relation to the objectives and responsibilities outlined in its Terms of Reference. In particular, it contributed to the following aspects:

- Independent External Evaluation: The Committee reviewed the Organization's response to recommendation 7.9 on audit matters. In particular, it suggested that while the Director-General should appoint the new external Committee members for their first term of office, the Finance Committee be advised of future new appointments.
- Implementation of recommendations: The Committee urged AUD to give priority to its efforts to improve the status of recommendation implementation throughout the house, through intensive follow-up and assistance from ODG in encouraging the ADGs to make progress on long-outstanding key recommendations. Furthermore, the Committee paid particular attention to outstanding recommendations from 2004 and prior years, suggesting strategies to facilitate closure.
- Quality Assurance Review: The Committee reviewed the results and recommendations of the Quality Assessment carried out by the Institute of Internal Auditors, and followed progress on implementation of recommendations. In particular it proposed to strengthen the reporting line to the Finance Committee, including arranging for the Chairperson of the Audit Committee to be present and available to the Finance Committee meeting when the Annual Report of the Audit Committee is discussed, while maintaining the concept of the Director-General's option to present his comments thereon, if any. Furthermore the Audit Committee stressed the desirability of FAO taking the first steps towards control framework good practices.
- Work plans: The Committee assisted the Organization in strengthening audit strategies by providing direction on the risk analysis and the resulting biennial audit plan for 2008-2009. The Committee also reviewed and provided guidance on AUD's activities against the work plan for 2007.
- Investigations: The Committee assessed whether (i) FAO has procedures in place to properly address fraud allegations, (ii) cases are investigated in a timely manner, (iii) disciplinary action taken, where warranted, and (iv) 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.
- Investigation Guidelines: The Committee encouraged the Organization to expedite the development of investigation guidelines, stressing the importance of such guidelines to an investigative function and monitoring the process which is still ongoing. The Committee also supported the provision of complainant protection in FAO's rules and regulations.
- Periodic reporting: 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: The Committee provided advice and input into a revision of the Charter, which is planned to be presented to the Finance Committee for information in 2008.

B. SUMMARY

8. 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 and the uniform guidelines for investigations.

iii) Suspected mismanagement, irregularities and fraud are promptly investigated and reported upon.

iv) AUD's internal planning process for 2006-2007, and that in progress for the 2008-2009 plan, duly used risk assessment methodology aiming to consider 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.

vi) There should be final agreement on the Investigation Guidelines so that they can be issued to staff.

V. WORK PROGRAMME OF THE FAO AUDIT COMMITTEE FOR 2008

9. In this annual report, the old Committee does not presume to propose a work programme for the new Committee, however a hand-over package will be given to the new Committee, in order to facilitate the new Committee's understanding of open issues and potential focus of work for 2008.

BACKGROUND INFORMATION

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 (Internal) in April 2003. Its composition and terms of reference are set out in Manual Section 146 App. C.

2. The Committee's composition is as follows:
   - Internal Members
     Deputy Director-General, Chairman
     ADG, AF, Permanent Member
     ADG/Legal Counsel, Permanent Member
     ADG, Rotating Member
     ADG, Alternate to Rotating Member
   - Secretary (ex-officio)
     Inspector General
   - External Members
     Audit Expert
     Investigations Expert

3. 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 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.