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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 Thirty-fifth Session

Rome, 25 - 29 October 2010

**FAO Audit Committee – Annual Report to the Director-General for
2009**

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EXECUTIVE SUMMARY

- The Director-General is pleased to provide the Finance Committee with the Audit Committee's 2009 Annual Report to the Director-General, 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 2009. It notes significant progress by AUD in addressing the 2007 external quality assurance review of its internal audit activities and highlights a number of areas for Management's and AUD's attention, i.e:
 - Ensuring vacancies in AUD staffing are promptly filled
 - Implementing the Enterprise Risk Management project
 - Improving the rate of implementation of past AUD recommendations
 - Finalizing the AUD investigation guidelines
 - Improving timeliness of outcomes from investigation reports
 - Designating a new Audit Committee focal point
- The Committee also notes that the Organization still needs to establish an Ethics Committee with clear terms of reference to complement and support the Ethics Officer function.
- Since the Audit Committee issued its 2009 report, there has been significant progress in addressing many of these areas, and all are expected to be fully addressed by the end of 2010.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is invited to take note of the 2009 FAO Audit Committee Annual Report.

Draft Advice

- **The Finance Committee notes and commends the work of the FAO Audit Committee in exercising its work as an advisor to the Director-General and the Inspector General on the matters outlined in its Terms of Reference. It is pleased to note that, in the view of the Audit Committee, AUD has made significant progress in addressing the 2007 external quality assurance review of its internal audit activities; and requests Management and the Inspector General to ensure that action on the matters raised in the report are concluded by the end of 2010.**

I. INTRODUCTION

1. This is the seventh 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 2009.
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 matter 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.

II. OVERALL APPRECIATION OF ITS WORK

4. The Committee discharges its duties in compliance with its Terms of Reference (Annex 2).
- 2). The Committee believes that it has satisfactorily achieved its objectives.
5. Relevant FAO Managers participated in the proceedings of the Committee and a Deputy Director-General met regularly with the Committee.
6. The new External Auditor met with the Committee in early 2009 and provided a general overview of their work plan.
7. Committee's opinion of AUD: The Institute of Internal Auditors (IIA) did a quality assurance review of AUD in 2007 and found AUD's work to 'partially conform' to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards). The review made several recommendations for improvement. The Committee notes that AUD has implemented almost all the recommendations made to it. Specifically, the Charter of the office of the Inspector General has been revised; measures have been taken to finalise an internal audit manual; a quality assurance and improvement plan is in place; and more consistency in audit engagement process has been introduced.
8. The Committee is of the view that these steps are in the right direction and together with the implementation of some recommendations addressed to management by the review as well as attention to matters noted below would go a long way to ensuring AUD's general conformity to the standards. However, AUD's low capacity due to a high number of vacancies over a long period of time has an impact on the effectiveness of the assurance it can provide. In addition, the audit coverage is not fully risk based to the extent that the decentralized activities coverage is not risk based.

III. AREAS FOR ATTENTION

9. The Committee identified a number of key issues that Management needs to address in 2010. These include:

A. ENTERPRISE RISK MANAGEMENT (ERM)

10. The Committee notes that in 2009, AUD partnered with external risk management consultants to assess the Organization's current risk management processes. The Consultants advised an approach that would assist the Organization implement an effective organization-wide risk management framework. Based on the Consultants' advice, AUD recommended an

internally-led risk management approach that focuses on upgrading existing FAO risk management processes.

11. The Committee noted that senior management endorsed AUD's recommendation in December 2009. It was encouraged by the top management buy-in of the need for an ERM in the Organization. The overall responsibility for overseeing the implementation of ERM was assigned to the DDG. At its subsequent meeting, the Committee noted little progress on ERM. It notes that the responsibility for managing and implementing the project is presently unclear. The DDG for Knowledge was originally assigned overall responsibility for overseeing the implementation of ERM, which responsibility is also included in the terms of reference for the new DDG of Operations. The Committee urges top management to clarify the responsibility and ensure ERM implementation proceeds urgently.

B. IMPLEMENTATION OF RECOMMENDATIONS

12. The Committee acknowledges management has made progress in implementing long outstanding AUD recommendations. However, the Committee notes a number of high risk recommendations that have still not been closed, some of which date back as far as 2002. The Committee is particularly concerned with the lack of progress in implementing recommendations that address weaknesses in business continuity/disaster recovery, security issues and IT governance. An Organization-wide business continuity strategy has not been developed in which the IT Disaster Recovery Plan could be properly situated. Although IT Disaster Recovery Plan and Information Risk Assessment (IRA) have been prepared, these have not yet been endorsed. There is a need for an IT governance framework that would ensure that the IT strategy is aligned with the Organization's overall strategy.

C. INVESTIGATION GUIDELINES

13. The Committee notes that the internal investigation guidelines that AUD prepared after due consultation and based on the Uniform Guidelines for Investigations endorsed by the Conference of International Investigators, have still not yet been finalized and approved. These Guidelines have been pending for a considerable period of time. The Committee urges that the Guidelines be finalized and submitted to the Director-General for approval without further delay.

D. INVESTIGATION OUTCOMES

14. The Committee notes that recommendations from cases investigated can take a number of years before final disposition. While appreciating the need for due process and care in applying disciplinary and other accountability measures, the Committee recommends that management should look into ways of reducing the time taken for final disposition.

E. AUDIT COMMITTEE FOCAL POINT

15. The Committee notes that for 2008, the Director-General had designated the Deputy Director-General as the focal point for the Audit Committee. However, with the creation of a second Deputy Director-General for Operations, the Director-General may wish to consider who between the DDG Knowledge and DDG Operations would best be the focal point for the Committee.

IV. OBSERVATIONS OF THE AUDIT COMMITTEE

16. The Committee makes the following additional observations:

A. ETHICS OFFICER/COMMITTEE

17. The Committee acknowledges the progress the Organization has made in establishing an Ethics function, especially the appointment of an Ethics Officer in December 2009. However, the Organization still needs to establish an Ethics Committee with clear terms of reference that complements and supports the Ethics Officer function.

B. RECRUITMENT OF AUD STAFF

18. The Committee observes that as of 31 December 2009, about one-half of AUD's professional audit and investigator posts were vacant. The vacancies are partly due to the need to respect the organization-wide geographical representation and language policies. The Committee urges more efforts in filling these vacancies despite the diversity constraints.

C. QUALITY ASSESSMENT REVIEW

19. AUD has made significant progress in implementing key recommendations from the 2007 quality assessment review by the Institute of Internal Auditors. It is advanced in its Quality Assurance and Improvement Plan (QAIP) which was developed in 2008. The Committee anticipates its full implementation in 2010.

D. PERIODIC AUD REPORTS

20. The Committee reviewed and provided suggestions on the quarterly and annual reports of the Office of the Inspector General. Specifically, the Committee advised improvements aimed at making the reports concise, comprehensive and amenable to tracking the progress in the execution of agreed planned activities.

V. ACKNOWLEDGEMENT

21. 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 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. The Committee's 2009 composition was as follows:

| Members: | Mr. E. Ouko – Chairman, AFDB |
|------------------------|--|
| | Mr C. Andreasen, UNICEF |
| | Mr A. Khan, WFP |
| | Mr K. Langford, WHO (term expires 02-2010) |
| | 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 provides 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 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 THE AUDIT COMMITTEE ANNUAL REPORT FOR 2009

The Director-General has taken note of the Audit Committee's finding in its report for 2009 that significant progress has been made in addressing areas for improvement identified by the 2007 external quality assurance review and the Committee itself. The Director-General recalls that the Committee's report was issued in April 2010 and wishes to provide the following update as at September 2010:

- Paragraph 8: **Decentralized Activities Coverage** – The 2010-2011 coverage has been planned at a thematic level as part of the biennial audit plan, following the same risk-based process as other elements of the plan i.e. drawing on the enterprise-level risk assessment carried out by AUD in 2009. The particular locations covered under the themes have been selected based on subsidiary risk assessments and prioritization exercises.
- Paragraph 11: **Enterprise Risk Management (ERM)** – The ERM project has been formally assigned to the Office of Strategic Planning (OSP). A project leader is now in place in OSP to move the project forward, with the help of an expert consultant who has worked previously with AUD on its own review of this subject over the last year. AUD has also assigned a senior auditor to work with OSP in an advisory capacity during the second half of 2010, to support the next steps on the ERM project.
- Paragraph 12: **Implementation of past AUD Recommendations** – The issue of long outstanding “high risk” recommendations was discussed at the Senior Management Meeting in July 2010, where the Director-General reiterated that implementing agreed audit recommendations was a priority of the Organization. AUD subsequently conducted a further survey with relevant units. A progress report is being provided to the Director General which shows significant improvement on closing of recommendations.
- Paragraph 13: **Investigation Guidelines** – The final version of the guidelines has now been agreed between AUD, LEG, CSHL and ODG and will be submitted in September for approval of the Director-General. It was agreed that these guidelines will be submitted in conjunction with a separate draft corporate whistleblower policy.
- Paragraph 14: **Investigation Outcomes** – The Committee considers that more timely action should be taken when unsatisfactory conduct is identified. This matter was discussed by the Committee with the Deputy Director-General (Operations) at his July 2010 meeting. It appears that timelines on action have shortened but AUD will review data on this ahead of the next Audit Committee meeting in December.
- Paragraph 15: **Audit Committee Focal Point** – During the absence on leave and subsequent departure of the Deputy Director-General (Knowledge), the Deputy Director-General (Operations) has effectively been the Director-General's focal point for the Committee. He has now been formally designated to this role in future.
- Paragraph 17: **Ethics Office / Ethics Committee** – At its 139th session in May 2010, the Council requested the Finance Committee, in liaison with the Committee on Constitutional and Legal Matters, to continue reviewing the draft terms of reference of the Ethics Committee, with due consideration of the role of the Ethics Committee's function *vis-à-vis* other activities in the Organization, such as those in the Office of the Inspector-General, the functions of the Ombudsman and FAO's mediation process. Management has commissioned Ernst & Young to review the interface of other functions with the Ethics Office, options for the financial disclosure system and the Ethics Committee Terms of Reference.
- Paragraph 18: **Recruitment of AUD staff** – There has been significant progress in filling AUD vacancies during the year so far. In addition to quickly filling the Inspector General vacancy in early 2010, six of the nine other professional-level vacancies at the beginning of 2010 have been filled through internationally competitive recruitment

efforts. With additional appointments soon to be made, only one Auditor post vacant at the beginning of the year will remain pending.

- Paragraph 19: **Quality Assessment Review** – The implementation of the Internal Audit Quality Assurance and Improvement Plan is ongoing. At present there is a project underway within AUD to update the Audit Manual which is due to complete during the fourth quarter of 2010 and a formal internal quality review will be initiated late 2010 by the Audit Unit in preparation for the next external review which is due in early 2012.
- Paragraph 20: **Periodic AUD Reports** – At its last meeting in July 2010 the Committee acknowledged the significant improvements that had been made to the quarterly report, especially in tracking the Office's progress in implementing its 2010-2011 Risk-Base Audit Plan.