



# United Nations Industrial Development Organization

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## Industrial Development Board

### Forty-fourth session

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Item 4 (b) of the provisional agenda

### Establishment of an Audit Advisory Committee

## Establishment of an Audit Advisory Committee

### Report by the Director General

In line with conclusion 2016/2 of the thirty-second session of the Programme and Budget Committee, the present document reports on the progress made in relation to the establishment of an Audit Advisory Committee. The annexed draft terms of reference are submitted to the Board for endorsement.

## Introduction

1. With conclusion 2016/2, the thirty-second session of the Programme and Budget Committee requested the Director General to submit the draft terms of reference of an Audit Advisory Committee, representing the link between management, Member States, and Internal and External Audit, to the Member States as soon as possible, so as to prepare for the establishment of such a Committee. This report consequently submits the draft terms of reference to the Board for decision.

## Background

2. Since 2003 successive External Auditors raised the issue of the absence of an Audit Committee in UNIDO. The current External Auditor reiterated this in his latest report presented to the Committee in June 2016 (IDB.44/3-PBC.32/3).

3. In the Joint Inspection Unit (JIU) report 2010/5 entitled “The audit function in the United Nations system”, as well as the ongoing follow-up review on the internal audit function in the United Nations system, the establishment of an Audit Committee was mentioned as best practice to enhance governance and transparency and strengthen the independence of the oversight function.

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4. Since the UNIDO Office of Internal Oversight and Ethics follows the International Professional Practices Framework issued by the Institute of Internal Auditors in conducting its work as well as the JIU report 2010/5, which encourages United Nations system organizations to establish Audit Committees, there have been compelling reasons for UNIDO to consider the establishment of an Independent Audit Advisory Committee (Audit Committee). Moreover, the proposed establishment of an Audit Committee will further strengthen the Organization's fiduciary standards and help to adequately meet the requirements of its international and development partners.
5. Audit Committees have become a key governance and oversight requirement for all types of modern organizations. As independent expert advisory bodies, Audit Committees are established primarily to assist the governing bodies and directors general of organizations in fulfilling their oversight and governance responsibilities, including the effectiveness of internal controls, and the risk management and governance processes.
6. The Programme and Budget Committee at its thirty-second session therefore requested the Director General to establish such a committee and submit the draft terms of reference to UNIDO Member States as soon as possible. They were sent to UNIDO Member States in information note No. 26 of 28 July 2016.
7. Following the circulation of the draft terms of reference, the Secretariat provided a briefing for Member States on 20 October 2016, followed by a further two briefings held on 9 and 15 November 2016, to discuss the draft terms of reference and finalize a text version for consideration by the Board at its forty-fourth session.

### **Action required of the Board**

8. The Board may wish to consider adopting the following draft decision:  
"The Industrial Development Board:
  - (a) Takes note of the report by the Director General on the establishment of an Audit Advisory Committee (document IDB.44/9);
  - (b) Establishes an Independent Audit Advisory Committee (Audit Committee) as advisory committee pursuant to rule 63 of the rules of procedure of the Industrial Development Board to advise the Board and the Director General on issues within the Audit Committee's mandate;
  - (c) Endorses the terms of reference of the Audit Committee, as contained in annex I to document IDB.44/9;
  - (d) Invites the Director General to consult with Member States on the procedure for selection of members to the Audit Committee, so as to prepare for the submission of candidates to the forty-fifth session of the Board;
  - (e) Requests that the report of the Audit Committee be included on the agenda of future sessions of the Board."

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**Annex I****UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION  
INDEPENDENT AUDIT ADVISORY COMMITTEE****DRAFT TERMS OF REFERENCE****A. Purpose and mandate of the Audit Committee**

1. The Independent Audit Advisory Committee (the “Audit Committee”) is an advisory committee established pursuant to Rule 63 of the Rules of Procedure of the Industrial Development Board (Board) to advise the Board and the Director General on issues within the Audit Committee’s mandate.
2. The mandate of the Audit Committee shall be:
  - (a) To review and advise on the adequacy of accounting policies, financial and internal audit reports;
  - (b) To review and advise on the internal controls and risk management systems, including the effectiveness of policies and procedures on internal controls and risk management;
  - (c) To review and advise on the independence, effectiveness and objectivity of the internal audit function, including adherence to the Internal Oversight Charter, procedures, guidelines, applicable international internal auditing standards and the annual work plan;
  - (d) With regard to external audits, to review and advise on:
    - (i) The necessary provisions to ensure an independent and effective external audit;
    - (ii) External audit reports and relevant management letters;
    - (iii) Status of implementation of audit recommendations;
    - (iv) Other matters raised by the external auditors;
  - (e) To review and advise on actions taken by management on recommendations made by the internal auditors and the Joint Inspection Unit;
  - (f) To report to the Board on its activities within its mandate and on any items referred to it by the Board.

## **B. Composition, qualifications and selection of members**

3. The Audit Committee shall be comprised of at least three and no more than five members. They shall serve in an independent, non-executive and personal capacity, and their responsibilities cannot be delegated.
4. To qualify as members, they shall possess relevant professional qualifications and senior level experience at international, United Nations and/or public or private sector organizations in the areas covered by these terms of reference, including finance, accounting, auditing, or risk-management. They shall be free of any relationship that would interfere (or give the appearance of interfering) with their exercise of independent judgment. They shall be external to and independent of the Organization, and reflect the highest level of integrity and professionalism. In performing their duties, they shall not seek or receive instructions from any government or other authority external to or within UNIDO.
5. Former UNIDO staff, employees and consultants are disqualified from serving on the Audit Committee unless their employment or contractual relationship with UNIDO terminated at least five years prior to their nomination to the Audit Committee. A five-year period shall apply to any person employed or contracted by a former or current supplier of goods or services to UNIDO. Government officials serving in Vienna-based delegations shall not be eligible to serve on the Audit Committee.
6. The Director General will provide an open call for nominations to the Audit Committee, including but not limited to, Member States. Following consultations with Member States, the Enlarged Bureau shall submit to the Board a non-exhaustive list of possible candidates for membership in the Audit Committee. Members of the Audit Committee shall be appointed by the Board. No two members shall be nationals of the same State. In the selection process, due regard shall be given to the principle of equitable geographical representation and gender balance.

## **C. Term of office**

7. Members shall serve for renewable terms of three years each with a maximum of six years. Rotation of membership shall be staggered to allow for continuity. A Chairperson of the Audit Committee shall be selected by its members to serve in this capacity for two years on a rotational basis.
8. In the event of resignation, incapacity, death or any other circumstance whereby the term of office of an Audit Committee member is cut short, the Bureau of the Board shall appoint a replacement for the remainder of his or her term of office.
9. Members will not be held personally liable for decisions taken by the Audit Committee acting as a whole.
10. Members shall not be eligible for any employment or contractual relationship with UNIDO during their term of office and for at least five years immediately following the last day of their term of office.

## **D. Remuneration**

11. Members serve on a voluntary basis and will not be remunerated. UNIDO will reimburse subsistence costs and other direct expenses associated with attending meetings of the Audit Committee at a rate consistent with UNIDO rules and regulations.

## **E. Budget**

12. The biennial programme and budgets shall include a specific allocation for the Audit Committee to budget for the costs associated with the activities foreseen in these terms of reference, namely, the regular meetings (whether in Vienna or by video-conference), attendance by the Chairperson at the Board and other meetings as required, as well as secretarial and substantive support.

## **F. Meetings and administrative arrangements**

13. The Director of the Office of Internal Oversight and Ethics (IOE) will designate a Secretariat to the Audit Committee from amongst IOE staff.

14. The Audit Committee will meet at least two times a year in regular session. All meetings shall be convened by the Chairperson and be held either at UNIDO Headquarters or by video-conference. The Chairperson, any Audit Committee member, the External Auditor, the Director General, and the Director of IOE may propose additional meetings, which may be conducted by video-conference.

15. Provisional agendas are prepared by the Chairperson in consultation with members of the Committee and the Secretariat. The approved provisional agenda will be circulated together with invitations to the members at least 21 days prior to the date of the meeting. Supporting documents and briefing materials will be circulated at least seven days prior to the meeting.

16. The Audit Committee may invite the Director of IOE, management, auditors or other UNIDO staff to attend its meetings to serve as resource persons and/or to assist in its deliberations.

17. The deliberations and minutes of Audit Committee meetings will be kept confidential unless otherwise decided by the Committee. Documents and information material circulated for the consideration of the Committee shall be used solely for that purpose and treated as confidential.

18. As soon as possible after the close of a meeting, the Chairperson shall circulate draft minutes of the meeting to the members who were present and solicit their approval. Once the minutes are approved, the Chairperson will issue the minutes to the Director General, and as appropriate, to representatives of Member States.

19. The members of the Audit Committee shall sign a statement of confidentiality and disclosure of interest. If any matter before the Committee presents an actual or perceived conflict of interest for a member, it shall be timely disclosed to the Committee. The Chairperson and other members of the Committee will then

determine whether the actual or perceived conflict of interest is such that the member should be excused from the discussion and abstain from voting on the matter. All such declared conflicts of interest will be recorded in a register of interests maintained by the Secretariat of the Committee. The Audit Committee may establish more detailed conflict of interest policies in consultation with the Director General and representatives of Member States.

20. The Audit Committee is expected to maintain free and open communication with the External Auditor, the Director of IOE and management. It is empowered to:

(a) Obtain all relevant records and documents necessary to perform its responsibilities, including IOE and external audit reports;

(b) Meet in executive session with the Director General and other appropriate managers to discuss any issues that the Committee believes should be discussed privately;

(c) When required, meet separately with the Director of IOE to discuss any matters that the Committee or IOE believes should be discussed privately;

(d) When required, meet separately with the representatives of the External Auditor to discuss any matters that the Committee or the External Auditor believes should be discussed privately;

(e) When required, meet separately with Members of the Board or its Enlarged Bureau to discuss any matters that the Committee or those representatives believe should be discussed privately.

21. The Committee shall establish a document retention policy.

## **G. Rules of Procedure**

22. Three Audit Committee members, including the Chairperson, shall constitute a quorum. The Committee shall work on a consensus basis and by simple majority in the absence of consensus.

23. Except as otherwise provided in these terms of reference, the Audit Committee may adopt its own rules of procedure, which shall be communicated to the Board. If considered appropriate, the Committee may, in addition, be guided by the Rules of Procedure of the Board concerning conduct of business and decision-making.

## **H. Reporting**

24. The Audit Committee shall submit an annual report to the Board containing the Committee's advice and self-assessment of its effectiveness and compliance with these terms of reference. The report will be submitted to the Director General no later than end of March of the year following the reporting period. The report will be presented to the Board with any comments from the Director General and/or the Management Response. The Chairperson of the Committee will be invited to attend the session of the Board considering the report.

**I. Amendment**

25. Any proposed amendment to these terms of reference shall be submitted to the Board for approval before becoming effective.

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