

**CA/140/08**

Orig.: en

Munich, 19.09.2008

SUBJECT:            Audit Committee: possible models

SUBMITTED BY:     President of the European Patent Office

ADDRESSEES:       1. Budget and Finance Committee (for opinion)  
                      2. Administrative Council (for opinion)

---

SUMMARY

The present document follows on from the governance workshop in Ljubljana on 7-8 May 2008, the results of which were summarised in CA/62/08 dated 30.05.08. One of the priorities emerging from the workshop was "Audit Committee and independence of Internal Audit". The present document outlines in detail the compelling case for an Audit Committee. Three models are analysed and assessed. The Budget and Finance Committee and the Administrative Council are requested to give their opinion. Thereafter the Office will submit a proposal for the terms of reference of the Audit Committee.

---

## TABLE OF CONTENTS

<b>Subject</b>	<b>Page</b>
I. INTRODUCTION	1
II. THE AUDIT FUNCTION IN THE EPO	2
A. EXTERNAL AUDIT	2
B. INTERNAL AUDIT	3
III. WHY THE EPO NEEDS AN AUDIT COMMITTEE: PROBLEMS OF THE EXISTING AUDITING STRUCTURE	4
A. PROBLEMS RELATED TO EXTERNAL AUDIT	4
a) Complexity and inherent problems of the "Accounts - Budget Implementation Statement" (CA/10) and the related BoA report (CA/20)	4
b) Sensitive issues relating to the "BoA report" (CA/20)	5
B. PROBLEMS RELATED TO INTERNAL AUDIT	5
a) Independence of IA	5
b) Perception of managers that the audit plan is not objective	5
c) Insufficient support of IA from senior managers versus audited units	6
C. PROBLEMS RELATED BOTH TO EXTERNAL AND INTERNAL AUDIT	6
a) Implementation of recommendations	6
b) Need to improve awareness of risks and risk management	6
c) Need to strengthen co-ordination between internal and external audit	6
IV. AUDIT COMMITTEE AS A SOLUTION TO THE PROBLEMS OF THE EXISTING AUDITING STRUCTURE	7
A. WHAT ARE THE GENERALLY ACCEPTED PRINCIPLES AND RESPONSIBILITIES OF AN AUDIT COMMITTEE?	7
B. WHAT IS THE EXPERIENCE IN OTHER PUBLIC SECTOR ORGANISATIONS?	8
C. WHAT ARE THE FEASIBLE MODELS FOR AN AUDIT COMMITTEE IN THE EPO?	8
D. ASSESSMENT OF THE MODELS	10
V. CONCLUSION	11

ANNEX 1

GENERALLY ACCEPTED AUDIT COMMITTEE PRINCIPLES  
AND SOME IDENTIFIED GOOD PRACTICES

12

## **I. INTRODUCTION**

1. In the context of the EPO's strategic renewal process, the current governance structure is under review. A strong audit process is generally recognised as an essential element of good governance both in the public and the private sectors.
2. The audit function traditionally comprises, on the one hand, an external audit, carried out by an independent body reporting to shareholders (in the private sector) and to the governing body (in the public sector) and, on the other, an internal audit established within the entity to provide a service to that entity and reporting usually to the highest level of the entity's executive body.
3. A third element, the (independent) audit committee, has assumed more and more importance as a reaction to the private-sector corporate debacles in the USA and Europe resulting mostly from control/supervision failures in the 1990s. The reaction of legislators and professional bodies was to introduce a number of principles on corporate governance (codes of best practice). One of the main factors was the strengthening of the audit process and the establishment of an independent audit committee. Audit committees provide an additional level of assurance to shareholders in matters such as transparency, risk management and control, as well as internal and external audit.
4. Independent audit committees have recently also been established or strengthened in the public sector, where they have mainly advisory functions. In particular, the aim of such committees in international institutions is primarily to assist the governing body - and the executive head, as appropriate - in fulfilling their supervision and governance responsibilities. The Representatives of Internal Audit Services (RIAS) of the United Nations entities and multilateral institutions (including EC, WIPO) have identified a number of generally accepted audit committee principles and some good practices, which are reproduced in Annex 1 and taken into account in the present analysis.
5. The reflections of the Council and the Office on this subject started in 2007. As per B28/2/08 dated 30.03.2007 "the setting-up of an Audit Committee (...) is unanimously wished by the Board". Inside the Office, the external governance group dealt intensively with the topic in the subsequent period and a benchmarking study was conducted, the results of which are taken into consideration in the present document. The main options were presented to the MAC in March and to the Board of Auditors in April 2008.

6. The topic of "Audit Committee and independence of Internal Audit" was defined as one of the main priorities by the majority of delegates on the Council and the MAC during the governance workshop held in Ljubljana on 7-8 May 2008. During the discussion on CA/62/08 dated 30.05.2008, the President announced her intention to prepare a detailed paper outlining the compelling case for an Audit Committee and the possible models within a timeframe of 6-12 months.
7. Any change of the current audit structure should however not undermine the status of external and internal auditors. Any duplication of functions should be avoided. Thus, the audit committee should be an advisory body, whatever model is chosen.
8. The present analysis aims to clarify the following key questions:
  - What are the rules and principles applicable to the audit function in the EPO?
  - Why does the EPO need an audit committee? What are the problems of the audit function in the EPO?
  - What are the generally accepted principles and responsibilities of an audit committee?
  - What is the experience of other public sector organisations?
  - What are the feasible organisational models in view of the EPO's legal framework?
  - How can these models solve the problems?

## **II. THE AUDIT FUNCTION IN THE EPO**

### **A. EXTERNAL AUDIT**

9. The Administrative Council is the legislative body of the EPO and it is responsible for the supervision of the Office, the executive body (Art. 4 EPC). The Council is supported by the Budget and Finance Committee (BFC) in this function (Art. 50 EPC). Art. 10 EPC sets out the exclusive tasks of the President including the management of the Office. The segregation of powers and duties between the Office and the Council represents the application of a fundamental principle of good governance in order to ensure a sound system of checks and balances.

10. The EPO has recognised since its foundation the necessity of an independent external audit body. Pursuant to Art. 49 EPC, the accounts and the balance sheet of the Organisation "shall be examined by auditors whose independence is beyond doubt" (...); " the audit shall ascertain whether all income has been received and all expenditure effected in a lawful and proper manner and whether the financial management is sound". In addition, Art. 50 EPC prescribes that "the Financial Regulations shall ... lay down the arrangements ... for the auditing of accounts".
11. The above EPC provisions were further developed in Art. 71 to 80 FinRegs. The external auditors are appointed every five years by the Administrative Council and constitute the "Board of Auditors" (BoA). The BoA has confirmed that the auditors apply the standards and principles issued by INTOSAI (International Organization of Supreme Audit Institutions), in conformity with the Rules of Procedure drawn up by the BoA having regard to Art. 72 FinRegs (see also CA/20/08 p.10).

## **B. INTERNAL AUDIT**

12. The introduction of Internal Audit (IA) at EPO was originally suggested by the external auditors in 1979. The first discussions within the Council started in 1988. In 1994 the establishment of an Internal Audit Department was approved by the Council (CA/89/94).
13. In 1995 the Internal Audit Charter was issued by the then President, stating that "The introduction of Internal Audit (...) is a recognition of the magnitude and complexity of corporate governance in the Organisation and of the need for independent, regular and systematic re-assurance to the President that all of the systems of control established by management to achieve the objectives of the Office, are operating effectively to achieve those objectives". Art. 8 of the Internal Audit Charter established the principle of co-ordination between IA and the BoA.
14. The function of IA is also considered in Art. 77.3 FinRegs, whereby the BoA receives the annual internal audit programme and all IA reports.
15. In 2004 the Internal Audit Department was upgraded as a Principal Directorate and in 2005 the unit responsible for quality assurance in the patent area was transferred from the operational line to Internal Audit in order to ensure the necessary impartiality.

16. IA is mandated to conduct reviews across all departments of the Office, with the exception of Pension Reserve Fund transactions and procedures, unless the RFPSS Administrator requests an investigation. Internal auditors act on behalf of the President and have unrestricted access to all relevant information. In its audit work, IA applies the International Standards for the Professional Practice of Internal Auditing and the related Code of Ethics, both issued by the Institute of Internal Auditors.
17. The internal audit plan is subject to the approval of the President. Internal audit reports include recommendations to the audited units, which are submitted to the President for endorsement. The aim is to promote greater transparency, compliance with rules and efficiency across the Office.

### **III. WHY THE EPO NEEDS AN AUDIT COMMITTEE: PROBLEMS OF THE EXISTING AUDITING STRUCTURE**

#### **A. PROBLEMS RELATED TO EXTERNAL AUDIT**

##### **a) Complexity and inherent problems of the "Accounts - Budget Implementation Statement" (CA/10) and the related BoA report (CA/20)**

18. According to Art. 49 EPC, the BoA issues annually a report to the Administrative Council (CA/20), which is the basis for the discharge of the President in respect of the budget implementation. The Council usually devotes special attention to the allocation of funds in the budget preparation, whereas the debate on the final accounts is kept shorter. This may also be due to the complexity of the CA/20 report, particularly after the introduction of IFRS.
19. Furthermore, at present the Office feels that there is a lack of mechanisms to systematically and effectively ensure that the recommendations of the BoA can be monitored. The frequent remarks of the BoA on economy, compliance and transparency matters have highlighted the need for the Council to assess these matters in more detail and to assure itself of the sound financial management of the Office.
20. The Office considers that the BFC and the Council would benefit from expert advice to support their duty of supervision.

**b) Sensitive issues relating to the "BoA report" (CA/20)**

21. In view of the specific nature of CA/20, the report usually also refers to sensitive issues or issues of possible financial accountability. However, due to the wide distribution of CA/20 and the above-mentioned problems, it is virtually impossible to address such issues in depth and in detail.

**B. PROBLEMS RELATED TO INTERNAL AUDIT**

**a) Independence of IA**

22. At the EPO, the internal audit function is separated from operational areas. IA reports directly to the President and should remain a tool in the hands of the President. This notwithstanding, an independent mechanism (such as an audit committee) would provide further assurance of the correct functioning of IA, particularly in view of the fact that even at the highest management level situations can occur that call for the independence of IA. Such an independent mechanism should exist:

- to ensure that IA is equipped with a sufficient budget and resources for the adequate performance of the audit work;
- to prevent any undue limitation of the status of IA within the framework of its audit mission;
- to prevent any unjustified deletion of the proposed audit plan;
- to review the appointment, transfer and dismissal of the head of internal audit and internal auditors;
- to ensure that the supervision of IA does not rely entirely on the President.

**b) Perception of managers that the audit plan is not objective**

23. The role of IA has often been contested by certain managers who request time consuming mediation by the President. Should internal audit plans be reviewed by a panel of independent experts, this would increase the trust of audited managers in IA and would reduce the need for the President to mediate.

**c) Insufficient support of IA from senior managers versus audited units**

24. Rules and controls are often perceived by staff and managers as a bureaucratic burden in opposition to operational efficiency. This often results in a lack of co-operation with IA. Certain senior managers seem to prefer to show solidarity with their audited units, instead of facing the reality of problems. This may be due to a self-defensive attitude and to a different perception of legal and financial constraints. An independent audit committee would contribute to improving such awareness.

**C. PROBLEMS RELATED BOTH TO EXTERNAL AND INTERNAL AUDIT**

**a) Implementation of recommendations**

25. Recommendations are subject to follow-up reviews by IA, but the rate of response is often not satisfactory (in several cases a third follow-up audit was required, on one occasion, even a fourth). Equally, some recommendations of the BoA, which were accepted by the Office, were implemented with a certain delay. An independent advisory body would assist the Council and the President in supervising the response of management to external and internal audit recommendations.

**b) Need to improve awareness of risks and risk management**

26. Risk assessment is a duty of managers; it is not a primary responsibility of external and internal auditors. The Office is making progress in this direction, e.g. in the IT area. However, only IA has conducted Office-wide risk assessments, one in 2004 and one in 2007-2008, the latter focussing on fraud risks. Both exercises showed that there is room for improvement as to risk awareness at all levels within the Office. For the time being, there is no full assurance for the Council of the adequacy of risk assessment and risk management in the EPO.

**c) Need to strengthen co-ordination between internal and external audit**

27. Potential overlaps of internal and external audit activities may limit their coverage and effectiveness by increasing unnecessarily the "audit burden" on audited units. Hence the need for a strong co-ordination of internal and external audit, with due regard to the independence of the BoA. Such co-ordination has been in place at

the EPO only in selected areas (such as building). The BoA believes that co-ordination has worked sufficiently in the past, whereas IA considers that the exchange of information on planned activities was often not satisfactory.

#### **IV. AUDIT COMMITTEE AS A SOLUTION TO THE PROBLEMS OF THE EXISTING AUDITING STRUCTURE**

##### **A. WHAT ARE THE GENERALLY ACCEPTED PRINCIPLES AND RESPONSIBILITIES OF AN AUDIT COMMITTEE?**

28. There are different models of audit committees in the public sector, but the trend is to follow a number of generally accepted principles on which there is a wide consensus:

- advisory functions with reporting line to the governing body;
- sufficient authority to fulfil responsibilities;
- members external and independent of the entity;
- size between a minimum of three and a maximum of five members;
- specific skills and experience in financial, control and governance matters.

29. According to the above mentioned principles, the audit committee should provide advice to the Council and the President as appropriate, e.g. on the following matters:

- effectiveness of internal control systems and risk management;
- adequacy of support provided by management to external auditors, analysis of auditors' reports and opinions, including management letters;
- performance of internal audit: effectiveness, adequacy of resources and staffing, quality of audit plans, reports and results;
- responsiveness of management to recommendations of external and internal audit.

30. The establishment of an audit committee as outlined above would solve most of the problems of the existing audit structure in the EPO. Once a consensus on the main tasks attributable to the audit committee has been achieved, the organisational position of the new body needs to be analysed, i.e. its purpose, structure and composition. To this end, the Office has examined the experience of a number of intergovernmental organisations.

## **B. WHAT IS THE EXPERIENCE IN OTHER PUBLIC SECTOR ORGANISATIONS?**

31. The benchmarking analysis conducted by the Office covered international institutions at European and UN/international level: WIPO, ILO, OECD, EC, ICRC (International Committee of the Red Cross), NAMSA (NATO maintenance and supply agency), CoE, ESA, ECB, World Bank, IMF, EUROCONTROL, OSCE, CERN.
32. The study shows that the majority of these organisations have an audit committee in place or are planning to establish such a committee. The purpose is in general "to give advice to Council on the risk management and control processes in place in the Organisation and the adequacy of internal and external audit arrangements" (extract from the terms of reference of the audit committee of CERN, 2006). Of course, there are different structures, but the common feature is that the audit committee is an advisory body without executive powers. The reporting line and the appointing authority is in most cases the Council, in certain cases the audit committee reports to the Executive (e.g. Director General in the ESA, a college of Commissioners in the EC). In this latter case, the duties of the audit committee would be more limited.
33. Regarding the composition, this can vary from one organisation to the other; in certain cases no external experts are foreseen (NAMSA, OECD, ECB, World Bank, ICRC), in other cases the audit committee includes external experts as a minority or majority of members (WIPO, EC, ESA, CERN), or the audit committee is entirely made up of external independent experts (CoE, OSCE, IFM, ILO draft terms of reference March 2007).

## **C. WHAT ARE THE FEASIBLE MODELS FOR AN AUDIT COMMITTEE IN THE EPO?**

34. Three models for an audit committee are described below, all compatible with the EPO's legal framework:
  - Option A: External Audit Committee
  - Option B: Internal Audit Committee
  - Option C: BoA acting as Audit Committee

35. The main goal of Option A is to empower the Council to better control the activities of the Office. Option A would entail an External Audit Committee entirely composed of external independent experts reporting to the Council. It may assist the President as appropriate in fulfilling its governance responsibilities. Candidates for such a committee would be proposed and appointed by the Council based on clear criteria to ensure the effective functioning of the Committee, such as professional qualification, sufficient independence (absence of contractual relationship with the EPO, no former members of the Office or EPO governing and supervisory bodies within the last three years - e.g. as required in the draft terms of reference of the ILO). The BoA would not be a member of the External Audit Committee, but its members would be required to attend, as well as the Head of IA. The President would have the right to attend. The External Audit Committee would deliver periodical reports to the BFC and to the Council.
36. The main goal of Option B is to empower the President to better control the Office in a way that is more transparent to the Administrative Council. Option B would entail an Internal Audit Committee entirely made up of external independent specialists appointed by the Council like option A, but candidates would be proposed by the President. Another difference to option A is that the Internal Audit Committee would report and be accountable to the President. According to this model the President and the Head of IA would be obligatory attendees. The BoA would be informed on a regular basis by the Chairman of the Committee. The Internal Audit Committee would deliver an annual activities report via the President to the BFC and the Council.
37. The main goal of Option C is to empower the BoA to better control the Office. Option C would entail an enlargement of the tasks of the BoA by entrusting the BoA with the duties of an Audit Committee, due regard being given to their independence. The members of the BoA acting as an Audit Committee are appointed by the Council and report to the BFC and the Council. The Office understands that the model proposed by the BoA in CA/20/08 is very near to Option C, but it differs in that it includes representatives of the Council. The Head of Internal Audit would be an obligatory attendee and the President would have the right to attend.

38. In order to allow a comparative overview, the three options described above are summarised in the table below:

	<b>Option A: External Audit Committee</b>	<b>Option B: Internal Audit Committee</b>	<b>Option C: enlarged BoA acting as an Audit Committee</b>
<b>Committee appointed by</b>	<b>Council</b>	<b>Council</b>	<b>Council</b>
<b>Reporting and accountable to</b>	<b>BFC Council</b>	<b>President</b>	<b>BFC Council</b>
<b>Composition</b>	<b>3 external independent experts</b>	<b>3 external independent experts</b>	<b>BoA 1 or 2 external independent experts</b>
<b>Attendees</b>	<b>BoA (obligatory) President (optional) Head of IA (obligatory)</b>	<b>President (obligatory) Head of IA (obligatory)</b>	<b>President (optional) Head of IA (obligatory)</b>

#### **D. ASSESSMENT OF THE MODELS**

39. The three options were assessed by the Office according to the ability to solve the problems of the current auditing structure, as defined in the present document, and the adherence to generally accepted audit committee principles.

40. All three options support the principle of independence.

- According to Option A the Audit Committee would be independent, as it is appointed by the Council and reports to the BFC / Council.
- According to Option B the Audit Committee would be independent, as it is appointed by the Council and reports to the President with annual activities reports to the BFC and the Council.
- According to Option C, the Audit Committee would be independent, as it is appointed by the Council and reports to the BFC and the Council, by enhancing the role of the BoA.

41. Considering the problems of the current auditing structure of EPO,
- Options A and C would contribute to solving them all, except the tendency of the Council to focus more on budget issues rather than on the final accounts. In particular, Options A and C would facilitate effective co-ordination between IA and BoA.
  - Option B would contribute to solving them all, except the problem of co-ordination between IA and BoA; it would not tackle the problems relating to the complexity of financial statements and BoA reports, given its internal position.

**V. CONCLUSION**

42. EPO governance would clearly benefit from the establishment of an audit committee. An audit committee would ensure better co-ordination between external and internal audit and make better use of the audit resources; it would enhance the independence, effectiveness and credibility of IA; it would allow discussions of sensitive cases in a restricted circle and therefore more clarity in the auditors' report; it would ensure appropriate feedback from management regarding audit recommendations; it would enhance a climate of mutual trust between the Office and the Council to the advantage of the whole Organisation and lastly of the stakeholders (citizens and industry). It would also improve the trust of the staff in the top management and in the Council in enhancing high standards of integrity, transparency and fairness and in enabling effective fraud prevention mechanisms and a better response to sensitive issues.
43. The Budget and Finance Committee and the Administrative Council are requested to give their opinion. Thereafter the Office will submit a proposal for the terms of reference of the Audit Committee.

## ANNEX 1      GENERALLY ACCEPTED AUDIT COMMITTEE PRINCIPLES AND SOME IDENTIFIED GOOD PRACTICES

Source: Draft position paper dated 30.05.2008 from Representatives of Internal Audit Services (RIAS) of the United Nations entities and multilateral Institutions (including EC,WIPO) on "The audit committee in United Nations entities and multilateral institutions".  
The EPO was kindly authorised to reproduce the following annex as an integral part of the present CA document.

	Accepted Principles	Some Identified Good Practices
<b>Purpose</b>	The audit committee, as an independent advisory expert body, should assist the governing body and the executive head of the entity, as appropriate, in fulfilling their oversight and governance responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee should assist primarily the governing body and, as needed, the executive head of the entity, as independent advisory expert body.</li> <li>➤ The audit committee should help ensure the governing body has independent and objective assurance on the effectiveness of the entity's controls, risk management, governance practices and accountability processes.</li> <li>➤ Oversight responsibilities include a) the integrity and appropriateness of financial and other reporting practices, b) the effectiveness of internal controls, risk management, tone at the top and governance practices, c) the performance of the internal audit/oversight function, d) the monitoring process for compliance with laws, regulations, and integrity and ethics (e.g. code of conduct), and e) the external auditors' qualifications and independence.</li> </ul>
<b>Authority</b>	The audit committee should have all the necessary authority to fulfil their responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee should have free and unrestricted access to any information, staff — including internal auditors — and external auditors or any external parties that is necessary to fulfil their mandate and roles and responsibilities.</li> <li>➤ The head of internal audit/oversight and the external auditors should have unrestricted and confidential access to the chairperson of the audit committee.</li> </ul>

	Accepted Principles	Some Identified Good Practices
<b>Composition</b>	The audit committee and its members should be independent and objective.	<ul style="list-style-type: none"> <li>➤ The audit committee should be composed entirely of independent external members of the entity.</li> <li>➤ The audit committee should report directly to the governing body.</li> <li>➤ The audit committee should have no management powers or executive responsibilities.</li> <li>➤ All members of the audit committee should be approved by the governing body.</li> </ul>
	The size of the audit committee should be determined by the size of the governing body and of the United Nations entity.	<ul style="list-style-type: none"> <li>➤ The audit committee should comprise a minimum of three members and normally not more than five.</li> <li>➤ The quorum for the committee should be a majority of the members.</li> <li>➤ Members serve in a personal capacity, therefore alternates should not be allowed.</li> </ul>
	Members of the audit committee should have collective skills, knowledge and experience to fulfil their responsibilities.	<ul style="list-style-type: none"> <li>➤ Skills mix should include good management experience and understanding of finance, accounting, financial reporting in the public sector or UN entities/other multilateral institutions, internal controls and risk management, internal and external audits, governance and knowledge of the entity.</li> <li>➤ At least one member should be a financial expert with good knowledge of generally accepted accounting principles and financial statements, internal controls and procedures for financial reporting.</li> <li>➤ Members of the audit committee should be oriented and trained on the committee's objectives and responsibilities, internal and external audit functions, risk management and functions/operations of the UN entity.</li> <li>➤ Members of the audit committee should be free of any real or perceived conflict of interest.</li> </ul>

Accepted Principles		Some Identified Good Practices
<b>Responsibilities</b>		
<b>Risk and Controls</b>	The audit committee should review— together with the internal auditors, external auditors and management— and advise the governing body, at least annually, on the effectiveness of the entity’s internal control systems, including the entity’s control assurance statements and risk management and governance practices.	<ul style="list-style-type: none"> <li>➤ The audit committee should review with management and the internal and external auditors the effectiveness of the entity’s internal controls and any related significant findings and recommendations together with management’s responses, including the timetable for implementing recommendations.</li> <li>➤ The audit committee should review, at least annually, the entity’s risk management process and risk profile. It should review the entity’s process for assessing significant risks or exposures and the steps management has taken to manage and mitigate risks.</li> <li>➤ The audit committee should review, through the results of internal and external audits, the entity’s policies, systems and practices to ensure the appropriateness of internal controls over financial reporting, efficiency and effectiveness of operations, safeguarding of resources, and compliance with laws, regulations and rules.</li> </ul>
<b>Financial Statements</b>	The audit committee should review and advise the governing body on the financial statements of the entity, including the external auditors’ opinion on the financial statements, and management letters and other reports arising from the external audit of the entity’s financial statements.	<ul style="list-style-type: none"> <li>➤ The audit committee should review and be familiar with the accounting and reporting principles, policies, standards and practices that the entity has applied in preparing its financial statements and other financial information reported by the entity.</li> <li>➤ The audit committee should review the annual report of the entity and other significant accountability reports to ensure that, to the best of their knowledge, there are no material misstatements or omissions.</li> <li>➤ The audit committee should review the reports from the external auditors.</li> </ul>

Accepted Principles		Some Identified Good Practices
<b>Internal Audit/Oversight</b>	<p>The audit committee should review and advise the governing body on the appropriateness of the independence of the internal audit/oversight function; the internal audit/oversight resources and staffing; and the performance of the internal audit/oversight function.</p>	<ul style="list-style-type: none"> <li>➤ The audit committee should review the performance of internal audit/oversight function including the review of risk assessment processes, plan and budgets (including making an assessment of the appropriateness of oversight resources), and periodic external quality assessment.</li> <li>➤ All internal audit/oversight reports should be made available to the audit committee for their consideration.</li> <li>➤ The audit committee should review periodic activity reports on the results of the internal audit/oversight function.</li> <li>➤ The head of internal audit/oversight should report periodically to the audit committee on the implementation of management’s action plans for implementing internal audit recommendations and on the effectiveness of the actions taken. The head of internal audit/oversight should report all areas where management has accepted a level of risk that is unacceptable to the entity.</li> <li>➤ The audit committee should review the appropriateness of the internal audit/oversight charter.</li> <li>➤ The audit committee should be consulted on the appointment, renewal and dismissal of the head of internal audit/oversight.</li> <li>➤ The audit committee should review management’s responsiveness to internal audit/oversight findings and recommendations.</li> </ul>

Accepted Principles		Some Identified Good Practices
<b>External Audit</b>	The audit committee should review and advise the governing body on the scope and approach of the external auditor's planned examination and the reports there from.	<ul style="list-style-type: none"> <li>➤ The audit committee should ensure that the entity's management has appropriate mechanisms to support the external auditors in carrying out their work.</li> <li>➤ The audit committee should consider the work plan of the external auditors.</li> <li>➤ The audit committee should periodically meet with the external auditors and seek their comments and advice on matters of risks, controls and governance.</li> <li>➤ The audit committee should assess the performance of external auditors and make recommendations to the governing body.</li> <li>➤ The audit committee should be consulted and provide advice on the appointment of the external auditor (including on the costs for the audit).</li> </ul>
<b>Reporting</b>	The audit committee should report to the governing body on the committee's activities, issues and results, and on its own effectiveness in discharging its responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee should prepare a report after every meeting, an annual report, and any special report if required, to the governing body and executive head. The annual report should confirm whether the committee has fulfilled all its responsibilities established in the charter and achieved its stated objectives for the period.</li> <li>➤ The reports of the audit committee should be distributed to the external auditors, and others as deemed necessary, in accordance with the reporting structure of the entity.</li> <li>➤ The committee's annual report should include its assessment of the performance of the internal audit/oversight function (such as actual achievements against work plans) and external audit, and recommendations, if necessary, for the improvement of risk management, controls and governance processes.</li> <li>➤ The audit committee should review its own performance at least annually.</li> </ul>

Accepted Principles		Some Identified Good Practices
	The audit committee should maintain and promote effective communication with the governing body (or other governing and legislative authority), the management, the head of internal audit/oversight and the external auditors.	➤ Management should have a good understanding of the audit committee's purpose and responsibilities.
Values and Ethics (Compliance)	The audit committee should review, at least annually, the systems established by the entity to maintain and promote international civil service values; and to ensure compliance with laws, regulations, policies and high standards of integrity and of ethical conduct to prevent conflicts of interest, unlawful conduct and fraud.	<ul style="list-style-type: none"> <li>➤ The audit committee should obtain regular updates regarding any litigation, including assessments of related contingent liabilities, investigations, frauds, ex gratia and special payments.</li> <li>➤ The audit committee should review the appropriateness and adequacy of anti-fraud policies, whistle-blowing arrangements and ethics provisions.</li> </ul>

	Accepted Principles	Some Identified Good Practices
Operations (Functioning)	The audit committee should be established by a charter or terms of reference approved by the governing body.	<ul style="list-style-type: none"> <li>➤ United Nations entities are generally governed by a legislative body, governing body, council, or commission. In circumstances where UN entities are managed by a chief executive or other governance structures, the audit committee should still be established, but it should be modified to fit the specific organizational structure.</li> <li>➤ The audit committee should be accountable to the governing body.</li> <li>➤ The appropriateness of the charter should be reviewed annually by the audit committee, requesting the governing body's approval for proposed changes.</li> <li>➤ A charter should establish the independence, objectivity, authority, responsibilities, functioning and structure of the audit committee. Reporting of the audit committee should be established in the charter.</li> <li>➤ The authority, responsibilities and structure of the audit committee, established in a charter, should be provided in the governing law of the UN entity.</li> </ul>
	The audit committee should establish an annual plan to ensure the committee's responsibilities and the stated objectives for the period will be effectively addressed.	<ul style="list-style-type: none"> <li>➤ The committee's annual plan should be submitted to the governing body.</li> </ul>

	<b>Accepted Principles</b>	<b>Some Identified Good Practices</b>
	The audit committee should meet as necessary to fulfil their responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee should meet 3 to 4 times a year or more as necessary.</li> <li>➤ Meeting agendas should be prepared and provided in advance to members. The meetings should be scheduled at least 12 months in advance, with sufficient time to report to the governing and/or legislative body.</li> <li>➤ Minutes or reports of meetings should be documented and approved.</li> <li>➤ The audit committee should establish a set of working procedures to assist them in executing their responsibilities.</li> </ul>
	The audit committee should have adequate resources in order to fulfil their responsibilities.	<ul style="list-style-type: none"> <li>➤ The audit committee should be assisted as necessary by secretarial function.</li> <li>➤ If necessary, the audit committee should have the ability to obtain independent counsel or other experts to advise the committee.</li> <li>➤ All confidential documents and information submitted to or obtained by the audit committee should remain confidential.</li> </ul>

	<b>Accepted Principles</b>	<b>Some Identified Good Practices</b>
	<p>Standards for tenure, terms and conditions of service, conflict of interest, discipline, liability indemnification, security clearance, travel authorization and conditions, remuneration and mechanisms to address disagreements should be established.</p>	<ul style="list-style-type: none"> <li>➤ These standards should preferably be included in the audit committee's charter. They should be closely in line with such systems as prevail in the entity itself.</li> <li>➤ Payment of travel costs, per diem and other out of pocket expenses to members of the audit committee should be considered.</li> <li>➤ The members of the audit committee should be appointed and serve for at least three years, and may be reappointed for a second and final term of two to three years. To ensure continuity at the start-up phase of the audit committee, initial terms may be less than three years so that appointments can be staggered over a period of time.</li> <li>➤ The members of the audit committee should be required to complete the entity's own financial and conflicts of interest declaration and disclosure processes.</li> <li>➤ Former managerial staff of the entity should not be appointed as committee members for five years following separation from the entity. Audit committee members should not be appointed in the entity for a period of five years following the expiry or discontinuation of their term of appointment.</li> <li>➤ Decisions of the audit committee should be by consensus. If consensus does not prevail, dissenting reports are appropriate.</li> </ul>