



DECISION WITHOUT MEETING

15 July 2016

Yokohama, Japan

Decision 1 (LI.1)

**REVISION OF ITTO FINANCIAL RULES AND PROCEDURES, AUDIT STANDARDS, AND
RELEVANT STAFF REGULATIONS AND RULES**

The International Tropical Timber Council,

Recalling Decision 6(XLVIII), which establishes the Financial Rules governing the Organization under the ITTA, 2006; and Decision 3 (XLIV) establishing the Staff Regulations and Rules of the Organization;

Recognizing that the liquidation of the LM Managed Performance Fund led to the write-off of US\$6 million of ITTO investments and that this investment was in contravention of ITTO's Financial Rules and/or the provisions laid out by the CFA;

Also recognizing that this had escaped the attention of both the CFA and the Council which had not until late 2015 been made explicitly aware of the loss of the funds by either the Secretariat or the auditors;

Further recognizing that the liquidation of the Ardent 365 Fund in April 2016 has resulted in an additional potential loss of up to US\$ 12.2 million and the Organization is now facing an exceptionally complex and rapidly evolving situation;

Noting the urgent need for corrective and preventive measures to strengthen the internal governance of ITTO and to renew member, donor and public confidence in ITTO;

Acknowledging the report and its addendum submitted to the Chairperson of Council by the Oversight Committee established to oversee the implementation of ITTC Decision 4(LI);

Further noting the provisions on the financial rules for the Administrative Account, Special Account, and Bali Partnership Fund as provided for by Articles 7(a), 18(2) and 20(3) of the ITTA, 2006;

Decides to:

1. Authorize the Officer-in-Charge to commission external expertise in internationally recognized financial rules and audit standards/best practices, to make recommendations on revisions to the ITTO Financial Rules and Procedures, Audit Standards, and relevant Staff Regulations and Rules;
2. Request the Officer-In-Charge to convene a three day expert panel consisting of representatives from three producer and three consumer member countries to consider the proposals for revisions made by the expert(s) and to finalize draft revisions of relevant rules and procedures for the consideration of CFA during the 52nd session of the ITTC;
3. Authorize the Officer-In-Charge to utilize an amount not exceeding US\$200,000 from the Working Capital Account to meet the expenses related to this decision.

ANNEX

Terms of Reference for Revision of ITTO Financial Rules and Procedures, Audit Standards, and Relevant Staff Regulations and Rules

Introduction

Due to failed investments as detailed in the Report and Addendum of the Oversight Committee established under Decision 4(LI), the ITTC seeks to retain external specialist(s) who possess expertise in internationally-recognized financial rules and audit standards/best practices, as well as knowledge of international best practices in staff rules and procedures to assist in drafting stronger rules and procedures in order to achieve higher internal control standards. These expert(s) should deliver revised draft rules and procedures to be considered and finalized by an expert panel for the consideration of Council. The proposed revisions should respond to the OC report, including the detailed recommendations of the independent investigation report.

Scope of work

- 1) Review existing ITTO rules and regulation, relevant Council decisions and CFA reports and decisions.
- 2) Propose amendments and revisions to relevant rules and regulations focusing on the following, but not limited to:
 - a. Creation of Audit Standards and Rules, taking into consideration:
 - i. appointment of Independent auditors, selection methods and criteria (i.e. independence);
 - ii. contract term limits;
 - iii. terms of reference for audits (i.e. an assessment of financial procedures, accounting systems, internal financial controls, and general administration and management);
 - iv. whether the provision in the Financial Rules that auditors may come from any Member State of ITTO is compatible with Japanese law and, if not, how to reconcile the two;
 - v. reporting (i.e. frequency/content; ensuring public availability of reports, functionality of audits);
 - b. Creation of procedures for Council's review, assessment, certification, and dissemination of relevant audit findings;
 - c. Update of relevant rules to incorporate all relevant Council Decisions / CFA recommendations;
 - d. Inclusion of a requirement that any further Council Decision(s) that impact financial rules should be incorporated into the existing rules;
 - e. Review of the Financial Rules to determine whether it is necessary or helpful to have different sections on different accounts containing the same rules and determine ways to streamline the rules;
 - f. Development of clear rules and principles governing investments, including, but not limited to:
 - i. the type of investments which may be considered, taking into account the need to protect both project beneficiaries and donors from losses on funds;

- ii. investment advice can only be sought from the banks or other financial institutions approved by the Council and not from independent investment advisers paid through commissions;
 - iii. threshold amount requiring Council approval;
 - g. Clarifying the nature of the Special Reserve Fund established by the Council in Resolution I (VIII) and shown in the accounts and including appropriate provisions on it in the Financial Rules.
 - h. Mechanisms for stronger control over disbursements of funds, including ensuring that decision making is not unduly centralized in one or two people;
 - i. Revisions to the relevant ITTO Staff Regulations and Rules which may include the following :
 - i. staff recruitment: proper assessment of ability and suitability for posts
 - ii. disciplinary rules: strengthen if/where found inadequate; definition of misconduct
 - iii. clarifying authority and lines of reporting and minimizing conflicts of interest
 - iv. staff rotation: as appropriate for the Secretariat given its limited size
 - v. personal email use policy
 - vi. conflict of interest policies: review and strengthen, including that regarding private investments
 - vii. whistleblower policy: updating and strengthening, including multiple channels for reporting
 - viii. formal incorporation of operational Council decisions into the ITTO Staff Regulations and Rules or standard operating procedures as appropriate.
- 3) The expert(s) will submit a draft report, containing the proposed revisions to ITTO rules and regulations, to the Officer-in-Charge within one month of signature of contract.
- 4) The expert(s) will be expected to travel to Yokohama for consultations with the Secretariat and interact with other key stakeholders through email/phone. The expert(s) will also be expected to participate in an expert panel that will consider and finalize their draft revisions/recommendations. Subsequent to the expert panel meeting, the expert will be required to finalize their report and submit to the OIC within 15 days.

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