Report of the Chairperson on the 115th
meeting of the Audit Committee
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1. The Audit Committee wishes to bring to the attention of the Executive Board the matters examined at the 115th meeting of the Committee held on 2 July 2010.

   Tentative agenda for the 116th and 117th Audit Committee meetings

2. At its ninety-ninth session in April 2010, the Executive Board authorized the Audit Committee to review at its discretion any question related to the financial administration and internal oversight of the Fund for which the Executive Board is responsible under the Agreement Establishing IFAD and the Financial Regulations of IFAD, and to inform the Board of the matters chosen for consideration and the conclusions reached in this regard.

3. Following consideration of a list of items related to the financial administration and internal oversight of the Fund drawn from the provisional agenda of the September and December 2010 sessions of the Executive Board, the Audit Committee decided to review the following two items at its 116th meeting in September and to report to the September session of the Board accordingly:
   - High-level preview of IFAD’s 2011 results-based programme of work and administrative and capital budgets, and the preview of the Office of Evaluation’s results-based work programme and budget for 2011 and indicative plan for 2012-2013; and
   - IFAD’s lending terms and conditions – hardened terms.

4. The date for the September meeting of the Audit Committee was confirmed to be 13 September 2010. Given its proximity to the September session of the Board, it was agreed that the Chairperson would provide an oral report on the meeting’s proceedings at the Board session.

5. Some Executive Board members, not members of the Audit Committee, attending the meeting as observers, reminded of the Executive Board’s requests that the Committee look into the use of closed sessions and that documents discussed at the Committee’s meetings be made available to all Executive Board members on the restricted website. The Committee supported the last request and invited management to come to the Committee’s September meeting with a clear proposal, based on a thorough legal and technical review of the matter.

   External auditor’s report on internal controls and accounting procedures

6. The Chairperson opened the discussion and invited PricewaterhouseCoopers to present its report on internal controls and accounting procedures. The main issues and recommendations reported on are the following:
   - Loan and Grant System (LGS) – Need for better integration with the existing PeopleSoft system;
   - Automation – Need to automate Heavily Indebted Poor Countries Debt Initiative (HIPC) accounting calculations and fair value accounting; recommendation that these be considered in the design and development of the new LGS;
   - Information technology – Some issues relating to the general control environment such as the change management of the current LGS, and PeopleSoft in change management, logical security and the availability of the production systems;
• Securities lending – Persisting risks in these operations and suggestion that phasing out be considered;

• Grants – The issue of accounting grants as expenditure when these are declared effective and how these impact the financial statements (given that IFAD grants are increasing, particularly with the Debt Sustainability Framework), and the issue of oversight, monitoring and control over the use of grants once these are disbursed to the grantees.

7. The Chief Finance and Administration Officer informed the Committee that Management was fully aware of and had accepted PricewaterhouseCoopers’ recommendations and that actions had already been completed or were in progress to mitigate the related risks. She reminded the Committee of the commitment to move towards an independent audit attestation of internal controls over financial reporting, and stated that the Committee would be kept updated on the progress made. The concerns on integration with PeopleSoft, functionality limitations of HIPC accounting and fair value accounting automations were expected to be fully resolved and incorporated in the design of the new LGS currently being developed. It was proposed that an update on the milestones of the LGS project be provided at future meetings of the Audit Committee.

8. On the securities lending issue, the Chief Finance and Administration Officer informed the Committee that securities lending had been downsized and the target level reached in August 2009. She stated that the goal was to abandon securities lending completely by end-2010.

9. After obtaining clarifications from PricewaterhouseCoopers and from Management on the accounting of and the oversight on the use of grants, the Committee requested that comparison be made with the accounting policies and practices of other international financial institutions.

10. The Director, Controller’s and Financial Services Division, reiterated that Management was looking into the issue of grants accounting, particularly with the increasing trend of the DSF. He informed and assured the Committee that even though grants were treated as expenditure in the financial statements, the monitoring and control exercised on the disbursed funds was exactly the same as for the loan programme.

11. The Committee thanked PricewaterhouseCoopers and took note of the report.

12. The Chairperson opened the discussion by advising the Audit Committee that PricewaterhouseCoopers had informed Management that its audit fee for 2010 would be the same as for 2009 except for a cost-of-living adjustment. Consequently, the Committee would not need to review and approve the 2010 audit fee proposal.

13. PricewaterhouseCoopers presented an overview of its audit strategy for 2010. It clarified that the main objectives and responsibilities of the external auditor were to express an opinion on the consolidated financial statements and to bring to the attention of Management any significant deficiencies in the internal control system that came to its attention as a result of its audit work. IFAD Management, on the other hand, was responsible for preparing the financial statements; establishing and maintaining effective internal control over financial reporting; ensuring compliance with applicable laws and regulations; providing external auditors with all the records and information required; and providing a letter of representation.
14. A more detailed discussion of the external auditor’s audit strategy memorandum (which was not available to Management) took place in a closed session of the Committee with PricewaterhouseCoopers.