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Selection of the external auditor of IFAD for the period 2017-2021

Note to Executive Board representatives

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Executive Board — 119th Session
Rome, 14-15 December 2016

For: Approval

Recommendation for approval

The Executive Board is invited to approve the appointment of Deloitte & Touche as the Fund's external auditor for 2017-2021, as nominated by the Audit Committee at its 141st meeting.

Selection of the external auditor of IFAD for the period 2017-2021

I. Introduction

1. Provisions related to the selection and appointment of the Fund's external auditor are contained in section 9 of the By-laws for the Conduct of the Business of IFAD and regulation XII.1 of the Financial Regulations of IFAD. The Financial Regulations provide that appointment of IFAD's external auditor and the determination of its terms of reference are the prerogative of the Governing Council, on the recommendation of the Executive Board. Resolution 77/2 adopted by the Governing Council authorizes the Executive Board to exercise all powers of the Governing Council, except for certain enumerated powers specifically reserved by the Council to itself. The powers relating to the selection and appointment of the external auditor were not reserved; thus, at its third session, the Council explicitly delegated to the Executive Board the power to appoint and supervise the external auditor.
2. The terms of reference of the Audit Committee stipulate that the Committee will oversee the selection process for the Fund's external auditor and will recommend to the Executive Board the appointment of a firm. Pursuant to the policy on rotation and on services to be provided by the external auditor, approved in 2006, the external auditor should be awarded a yearly contract, renewable for a period of up to five years, with a maximum of two consecutive mandates of five years each. After the first mandate, the external auditor would be eligible to bid for the second mandate.
3. Management facilitated the internal procurement process of selecting the Fund's external auditor for the period 2017-2021 on behalf of the Audit Committee, with the aim of presenting the recommended firm for nomination at the 141st meeting and for final approval by the Executive Board at its 119th session. The mandate for the current auditor ends with the audit of the 2017 financial year accounts.

II. Background

4. Following endorsement of the proposed approach by the Audit Committee at its 139th meeting in March 2016, Management proceeded to expedite the selection process as stipulated. It consulted with and involved the Audit Committee throughout the process to ensure that the Committee drove the process and that Management's role was solely one of facilitation. This document provides an update on the status of the selection process, whose outcome will be a final recommendation for approval by the Audit Committee, which will in turn form the basis for the nomination to be proposed to the Executive Board at its December session.

III. Status of the selection process

5. The last update, provided at the 140th meeting of the Audit Committee on 4 July 2016, informed the Committee of the steps undertaken to date and covered the outcomes of the request for expression of interest and the request for proposals (RFP). The RFP resulted in the receipt of three proposals. These were received from

Reconta Ernst & Young (Italy); PriceWaterhouseCoopers (Italy); and Deloitte & Touche SpA (a team combining offices in the United Kingdom and Italy).

6. A technical panel was set up to undertake technical evaluation of the bids. Ms Martina Metz (Germany), Audit Committee member, attended the technical presentations and a technical evaluation meeting. The technical presentations took place on 24 and 27 June 2016.

IV. Evaluation results

7. Due to the highly technical nature of the services being solicited, score weighting was set at 70 per cent for the technical evaluation and 30 per cent for the commercial evaluation.
8. The technical evaluation scores are provided in table 1.

Table 1

<i>Ranking</i>	<i>Name of bidder</i>	<i>Score (out of 100%)</i>	<i>Score (out of the 70% technical evaluation weighting)</i>
1	Deloitte & Touche SpA.	93.08	65.16
2	PriceWaterhouseCoopers	78.31	54.82
3	Reconta Ernst & Young	75.06	52.54

9. The technical evaluation of each firm is set out below:
- Deloitte & Touche SpA. The Deloitte team was technically sound and comprised representatives of both the Italian and United Kingdom practices. The team demonstrated strong international financial institution (IFI) experience. Its Senior Manager is currently the engagement manager auditing the European Bank for Reconstruction and Development and would bring much-needed industry expertise to the IFAD audit team. The team members showed technical understanding of financial reporting and handled their questions very well. They also demonstrated a strong knowledge of upcoming developments in the accounting and reporting practice. Deloitte is the current external auditor; however, this element was not taken for granted during the presentation. All panel members felt that Deloitte was the most qualified audit firm, with the best technical offer and presentation.
 - PriceWaterhouseCoopers. The team was technically sound and the firm appeared professional. However, no experience in providing similar services to other IFIs was evident and some of the responses to technical questions were very general. PWC was IFAD's external auditor through the 2011 financial statements. The overall impression was generally good, but it was felt that the evolutions in IFAD's business practice were not adequately factored in.
 - Reconta Ernst & Young. The team was technically sound and delivered a satisfactory presentation. Their responses to technical questions were generally good, but too generic and not tailored to IFAD's business model. The team did not have strong experience in providing similar services to other IFIs.
10. The commercial bids were subsequently opened and evaluated. The results of the commercial bids and the related assigned scores are provided in table 2.

Table 2

<i>Summary of commercial evaluation</i>			
<i>Ranking</i>	<i>Name of bidder</i>	<i>Total fee quoted (EUR)</i>	<i>Assigned score in percentage</i>
1	Deloitte & Touche SpA	135,000	30.00
2	Reconta Ernst & Young	142,400	28.44
3	PriceWaterhouseCoopers	170,000	23.82

11. The consolidated scoring for the bidding firms for both the technical and commercial evaluations are summarized in table 3.

Table 3

<i>Summary of commercial evaluation</i>			
	<i>Deloitte & Touche SpA</i>	<i>PriceWaterhouseCoopers</i>	<i>Reconta Ernst & Young</i>
Technical score	65.16	54.82	52.54
Commercial score	30.00	23.82	28.44
Total score	95.16	78.64	80.98
Overall ranking	1	3	2

V. Presentation of results to the Contracts Review Committee

12. Following the above evaluation, the next step was presentation of the results of the tender to the Contracts Review Committee (CRC) for review and recommendation to the Chief Procurement Officer. CRC members were informed of the details of tender IFAD/2016/016/RFP for selection of the external auditor. The CRC was then invited to endorse the recommendation based on the results of the above evaluation. Audit Committee members were encouraged to participate in this process. A member of the Audit Committee, Mr Nicholas Strychacz (United States), was present at the CRC meeting as an observer. The CRC reviewed the tendering process and the outcome of each stage of the process and recommended as follows:

The CRC Members endorsed the recommendation to award the contract to Deloitte & Touche SpA for a total annual cost of EUR 135,000.00 and for a period of one (1) year with an option of renewal for additional four (4) one-year periods and the maximum aggregate period of five (5) years.

VI. Next steps

13. Table 4 outlines the next steps to be taken following the CRC recommendation and the subsequent decision of the Chief Procurement Officer.

Table 4

<i>Step</i>	<i>Responsibility</i>	<i>By when</i>
Presentation of the nominated firm of auditors to the Executive Board for approval	Audit Committee	December 2016