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Selection of the external auditor of IFAD for the period 2022-2026

Note to Executive Board representatives

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Executive Board — 134th Session
Rome, 13-16 December 2021

For: Approval

Recommendation for approval

The Executive Board is invited to approve the appointment of PricewaterhouseCoopers S.p.A. as the Fund's external auditor for the audit of financial year accounts for the period 2022–2026, as endorsed by the Audit Committee at its 162nd meeting.

Selection of the external auditor of IFAD for the period 2022-2026

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 (By-laws) and regulation XII.1 of the Financial Regulations of IFAD. The By-laws provide that "The accounts of the Fund shall be audited at least once a year by highly-qualified outside auditors selected by the Governing Council on the recommendation of the Executive Board". At its third session (January 1980) the Governing Council delegated the powers relating to the appointment of the external auditor to the Executive Board. Such delegation is also reflected in regulation XII.1 of the Financial Regulations of IFAD, as revised by the Governing Council at its 35th session (February 2012). "The accounts of the Fund shall be audited at least once a year by a qualified and independent external auditor appointed by the Executive Board".
2. The terms of reference of the Audit Committee stipulate that the Audit Committee shall oversee the process for the selection of the Fund's external auditor and recommend to the Executive Board the appointment of a firm as the Fund's external auditor. Pursuant to the policy on rotation and on services to be provided by the external auditor, approved in 2006 by the Executive Board, 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 is eligible to bid for a second mandate.
3. The Executive Board, at its 119th session in December 2016, approved the appointment of Deloitte and Touche S.p.A. as IFAD's external auditor to undertake their second mandate, covering the audit of financial year accounts for the period 2017–2021. Deloitte and Touche's second mandate is therefore due to expire with the audit of the 2021 accounts so that a new selection process must take place to appoint a new external auditor.
4. At its 162nd meeting in September 2021 the Audit Committee reviewed the procurement process and submitted to the Executive Board its recommendation of a new audit firm, as set out in paragraph 16 below. If approved by the Executive Board, the new audit firm will receive a mandate covering the period 2022–2026.

II. Background

5. Following the endorsement of the proposed approach by the Audit Committee at its 160th meeting in April 2021, Management facilitated the procurement exercise on behalf of the Committee, consulting throughout the process and receiving advice and direction from Committee representatives (Mr Gian Paolo Ruggiero – Italy and Ms Angela Cameron – United Kingdom).
6. At the 161st meeting of the Audit Committee on 28 June 2021, Committee members were informed about the progress made, which included the response to a "Request for Expression of Interest" launched in April 2021. It was noted that five parties expressed interest, out of which only one firm was rated as (deemed to

be) technically qualified to meet IFAD's standards as per the Fund's "Request for Proposals" (RFP).

7. Upon consultation with Audit Committee members, and in order to secure a highly-qualified independent audit firm as the Fund's external auditors while ensuring a wide competitive base, a full RFP was launched with a deadline of 2 July 2021. Four bids were received by the deadline.

III. Evaluation results

8. A technical evaluation was conducted on all bids received: BDO Italia S.p.A. (BDO); PricewaterhouseCoopers S.p.A. (PwC); Lochan & Co.; and Kiarie Kangethe & Co.
9. The technical evaluation of each firm is set out below:
 - **BDO's** offer was found to be lacking in several important areas, quite generic and not focused on IFAD's business model and IFAD requirements. There was no detailed evidence of access to, and support from, an international network; and BDO did not provide references and background information to demonstrate a detailed knowledge of the auditing of yearly accounts of other international financial institutions (IFIs) and/or multilateral development banks (MDBs).
 - The firms **Lochan & Co. and Kiarie Kangethe & Co.** did not demonstrate minimum levels of experience or other qualifications necessary for this audit work. Their proposed audit approaches were lacking specificity and applicability to IFAD/the IFI environment, with no direct experience of auditing corporate accounts of other IFIs/MDBs. It was also noted that neither firm has experience of the banking sector, which may affect their ability to issue comfort letters, if any further are required, for issuance of medium-term notes, for example.
 - **PwC** provided a substantive proposal in all areas, demonstrating access to, and support from, a vast international network, including access to specialists in complex international financing standards reporting, banking, internal controls and IT. Their audit approach was therefore assessed as relevant and appropriately applied to IFAD's business requirements. Strong points were provided in new reporting and compliance areas.
10. Due to the highly technical nature of the services being solicited, the score weighting was set at 70 per cent for the technical evaluation and 30 per cent for the commercial evaluation.
11. The technical evaluation scores are provided in table 1 below.

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	PricewaterhouseCoopers S.p.A.	87.9	61.5
2	BDO Italia S.p.A.	60.0	42.0
3	Lochan & Co.	21.1	14.7
4	Kiarie Kangethe & Co.	17.9	12.5

12. In line with tendering documentation, the threshold for meeting the technical requirements was 70 per cent. Only the proposal from PricewaterhouseCoopers met this threshold and qualified for the commercial evaluation stage.
13. The commercial bid was subsequently opened and evaluated. The results and the related scores are provided in table 2 below.

Table 2

<i>Summary of commercial evaluation</i>			
<i>Ranking</i>	<i>Name of bidder</i>	<i>Total fee quoted</i>	<i>Assigned score in percentage</i>
	PricewaterhouseCoopers	EUR 173,500 Audit Fees for fiscal year 2022	30
	Also indicated in the commercial offer were the following costs for optional additional services, which are not yet determined to be required	Semi-annual audit of the IFAD accounts: an additional EUR 20,000 over the annual audit cost Issuance of comfort letters for the medium-term notes programme: EUR 30,000 Issuance of comfort letters for the medium-term notes individual issuances: EUR 25,000	

14. The consolidated scores for both the technical and the commercial evaluations are summarized in table 3.

Table 3

	<i>PricewaterhouseCoopers</i>
Technical score	61.5
Commercial score	30.0
Total score	91.5

IV. Presentation of results to the Contracts Review Committee

15. Following the above evaluation, the next step was the presentation of the results of the tender to the Contracts Review Committee (CRC) for review and recommendation to the Chief Procurement Officer, who is the Associate Vice-President, Corporate Services Department. The CRC members were informed of the details of the tender for the selection of the external auditor. The CRC was then invited to endorse the recommendation based on the results of the procurement process.

[The CRC Members endorsed the recommendation to award the contract to PricewaterhouseCoopers S.p.A. for a total annual cost of EUR 173,500.00 and for a period of one (1) year with an option of renewal for an additional four (4) one-year periods and the maximum aggregate period of five (5) years.]

V. Next steps

16. The Executive Board is invited to approve the appointment of PricewaterhouseCoopers as IFAD's external auditor with a mandate covering the audit of financial year accounts for the period 2022–2026 (through renewable one-year contracts).