



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board — Sixty-Fifth Session

Rome, 2-3 December 1998

**REVISED TERMS OF REFERENCE AND RULES OF PROCEDURE OF
THE AUDIT COMMITTEE**

1. The establishment of a committee to deal with audit matters was decided upon by the Executive Board at its Thirteenth Session, with the understanding that the committee's composition and specific terms of reference would be fixed at a later stage. Basic terms of reference and rules of procedure were adopted by the Executive Board at its Fifteenth Session.
2. Financial Regulations XI and XII require the President to ensure that the Fund maintains proper accounting records for preparing financial statements that give a true and fair view and have been prepared in accordance with International Accounting Standards and the Financial Rules and Regulations of the Fund. The President is also responsible for making available to the External Auditor, as and when required, all the Fund's accounting records and all other relevant records and related information, including minutes of all management and governing body meetings.
3. Similarly, Financial Regulation X.1(c) requires the President to establish and maintain appropriate internal financial control and audit systems. The said internal financial control system includes all policies and procedures (internal controls) adopted by management of the Fund to assist in achieving its objective of ensuring, as far as practicable, the orderly and efficient conduct of its operations, including adherence to internal policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, and timely preparation of reliable financial information.
4. Internal Audit is an independent appraisal function established by the President and answerable to him, to assist him in the effective discharge of his responsibilities to establish and maintain sound internal controls. It functions by, among other things, examining, evaluating and reporting to management on the adequacy and effectiveness of the internal control systems. The internal audit activities include reviewing and reporting on the reliability and integrity of financial and operating information; compliance with policies, procedures, rules, regulations, agreements and contracts; means of safeguarding assets and on the existence of such assets; the economy and efficiency with which resources are employed; and whether the results of operations are consistent with established objectives. Internal Audit participates in and coordinates, as necessary, in special investigations into particular areas as required by management. The role of Internal Audit is determined by management and its objectives



differ from those of the External Auditor, who is engaged to report independently to the Executive Board and the Governing Council on the financial statements.

5. The external audit of financial statements involves an independent auditor giving an opinion on the financial statements as a whole and thereby providing reasonable assurance that the financial statements give a true and fair view and have been prepared in accordance with relevant accounting standards and/or other requirements.

6. The Audit Committee is a sub-committee of the Executive Board, established under Rule 11 of the Rules of Procedure of the Executive Board to assist the latter in its audit responsibilities. Its primary functions are to assist the Board in fulfilling its oversight responsibility by reviewing the financial statements provided to its members and to satisfy itself that management has established an effective system of internal control.

7. At its Sixty-First Session in September 1997, the Executive Board decided upon a change in the composition of the Audit Committee. The Board decided that the composition of the Committee be made up of a Chairman and three representatives from List A, two representatives from List B and three from List C. Until September 1997 the Committee had consisted of a Chairman and two representatives from each of the three categories.

8. In line with this change, a review of the Terms of Reference and Rules of Procedure of the Audit Committee has been undertaken by the new Committee. The draft revised Terms of Reference and Rules of Procedure of the Audit Committee are presented in the Annex for the consideration of the Executive Board. Additions to the original text are shown by underlining, and text that has been removed is indicated by strike-out. The proposed Terms of Reference of the Audit Committee are similar in all material respects to those of other international financial institutions.

Recommendation

9. The Executive Board is invited to approve the revised Terms of Reference and Rules of Procedure of the Audit Committee.



TERMS OF REFERENCE OF THE AUDIT COMMITTEE

- (i) To make recommendations to the Executive Board with respect to the selection, appointment and remuneration of the External Auditor;
- (ii) to discuss with the External Auditor the scope of his work;
- (iii) to review the audited financial statements ~~with the External Auditor and their opinion thereon~~ and the External Auditor's opinion thereon with the Audit Committee Secretariat and the External Auditor;
- (iv) ~~to review the operations of the Internal Auditor to determine the adequacy and effectiveness of Internal Audit controls~~ to satisfy itself that the Fund has an effective and efficient Internal Audit system;
- (v) ~~to review the operations of the Monitoring and Evaluation Unit with regard to the adequacy and effectiveness of its evaluations activities;~~ to satisfy itself that the internal control and risk management systems established by Management in the areas of investments and procurement effectively safeguard the assets of the Fund;
- (vi) to report to the Executive Board on any matters arising from the above terms of reference and to submit such conclusions and recommendations thereon as the Committee deems appropriate.



RULES OF PROCEDURE OF THE AUDIT COMMITTEE

The Rules of Procedure of the Executive Board shall apply, *mutatis mutandis*, to the proceedings of the Audit Committee, except as specified below:

Rule 1 Convening of Meetings

The Audit Committee shall hold regular meetings periodically. The dates of each regular meeting shall be determined by the Committee at each of its preceding sessions. Special meetings of the Committee may also be called by the Chairman upon the request of any two members ~~representing different categories.~~

Rule 2 Membership and Terms of Office

The composition of the Audit Committee shall consist of nine Executive Board Members or Alternate Members: the Chairman and three Members from List A, two Members from List B and three Members from List C. The term of office of the Audit Committee shall be three years.

Rule 3 Quorum

The quorum for any meeting of the Audit Committee shall be constituted by five Members. ~~by four members provided that each category is represented.~~

Rule 4 Chairman

The Committee shall elect its Chairman from List A Committee Members. In the absence of the Chairman during a scheduled meeting of the Committee the Chair will be temporarily assumed by another Member from List A selected by the Committee.

Rule 5 Method of Taking Decisions

~~In general, the Chairman's ruling should reflect a consensus. However, such rulings shall stand when supported by two Members.~~ The Committee will make every effort to arrive at decisions by consensus. Where such efforts have been exhausted, the Chairman's rulings shall stand when supported by four other Members.

Rule 6 Attendance at Meetings

The President of IFAD or, in his absence, a member of staff designated by the President as his representative, may participate in the deliberations of the Committee. The President will designate the appropriate staff member or members who are to provide, pursuant to the Committee's



request, such information as may be required in carrying out the Committee's responsibilities under its terms of reference.

Rule 7
Documentation, Records and Reports

The proceedings of the Committee, documents provided to the Committee, and the records of the Committee's deliberations, shall be restricted ~~strictly confidential~~ and available only to Members of the Committee and Members of the Executive Board. The proceedings of the Committee shall be reflected in the Minutes of the Audit Committee ~~Summary Records~~, unless the Committee decides otherwise.