



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

Rome, 8-9 September 1999

### **REPORT OF THE AUDIT COMMITTEE**

1. The Audit Committee met on 7 September 1999 to discuss the agenda items of the Sixty-Sixth and Sixty-Seventh Audit Committee Meetings. The committee has the following matters to bring to the attention of the Executive Board.

#### **General Reserve – A Review of Adequacy**

2. The General Reserve was established to cover potential overcommitment as a result of: exchange-rate fluctuations; possible delinquencies in loan-service payments and amounts due to the Fund from liquid-asset investments; and diminution in the value of assets caused by the fluctuations in the market value of investments.

3. In December 1998 the Audit Committee reviewed a management proposal to increase the ceiling of the General Reserve from USD 95 million to USD 130 million through annual transfers of USD 5 million. No consensus was reached on the increase. It was, however, proposed that the power to amend the level of the General Reserve should be delegated to the Executive Board. The Governing Council duly agreed to this delegation at the Twenty-Second Session of the Governing Council in February 1999 (Resolution 111/XXII).

4. At its Sixty-Seventh Meeting the committee reviewed a revised management proposal that the current ceiling of USD 95 million be maintained pending the outcome of the resource consultation and the future of the Advance Commitment Authority, which will expire in February 2000. The committee accepts the management view and accordingly recommends that these two matters should be remitted to the Resources Consultation.

#### **Review of the Forward Programme of the Office of Internal Audit**

5. The chief, Internal Audit reports directly to the President. However, the Audit Committee is required by its Terms of Reference (document EB 98/65/R.38) to “satisfy itself that the Fund has an effective and efficient Internal Audit system”. Accordingly, under new arrangements that have taken effect in 1999, the Audit Committee reviews the workplan of the Office of Internal Audit on an annual basis. A summary of the recommendations of Internal Audit is reviewed at the end of each year.

6. During its Sixty-Seventh Meeting, the committee reviewed a report on the 1998 Internal Audit activities, including the main recommendations issued during that year; the workplan for 1999 (comprising a description of the main audit assignments planned and information on other audit

services, both within detailed time frames); and a summary of the work performed in the first semester of 1999.

7. The committee took note of the papers presented by the Office of Internal Audit and was impressed both with the quality of the programme of work undertaken and the progress made. A follow-up review of the implementation of the recommendations issued to date is currently being undertaken by Internal Audit. A second follow-up review will be undertaken in January 2000. The committee will review a summary of the results in April 2000 when it undertakes its next annual examination of the Internal Audit function and its work programme.

### **External Auditor's Memorandum on Internal Control and Accounting Procedures and the President's Draft Reply**

8. In the course of its annual audit of IFAD's accounts, the External Auditor provides observations on internal control and accounting procedures to assist management in ensuring transparent, efficient and accurate financial reporting. The committee reviewed the memorandum for the audit of the 1998 financial accounts, containing nine observations and recommendations, as well as management's draft responses to those recommendations. Follow-up action on the 1997 recommendations was also reviewed.

9. The committee took note of the observations and recommendations in the 1998 memorandum and approved the President's draft responses subject to agreement by the Secretariat and the External Auditor on a joint response under Recommendation 1.1, which relates to the strategy for managing exchange risk.

### **Private Session with the External Auditor**

10. In a private session, the committee reviewed the 1999 Strategic Planning Memorandum with representatives of the External Auditor, PricewaterhouseCoopers. The committee was content with the memorandum and with the associated audit fee.

11. Accordingly, the committee recommends approval by the Executive Board of the 1999 proposed audit fee of ITL 164 million, broken down and compared to the prior year, as follows:

	<b>1998 Actual (Italian Lire)</b>	<b>1999 Proposed (Italian Lire)</b>
IFAD Regular Programme	148 million	148 million
Belgian Survival Fund Joint Programme	6 million	6 million
Supplementary Funds *	8 million	10 million
<b>Total</b>	<b>162 million</b>	<b>164 million</b>

\* The increase in fees for the Supplementary Funds has been rendered necessary by the significant increase in the volume of disclosures in the financial statements and, as a consequence, of the related audit work.

### **Review of the Implementation of IFAD's Policy Framework for Managing Partnerships with Countries in Arrears**

12. An initial discussion of document EB 99/67/R.7 took place at the request of management. The paper, which is scheduled for the Sixty-Seventh Session of the Executive Board, invites discussion on two issues: (i) the timing of approval of arrears settlement packages by the Executive Board and possible delegation of approval authority to the President; and (ii) the removal of the requirement for the net present value (NPV) policy in the calculation of arrears repayments. Following discussion, the committee suggested that management should prepare an illustrative example of the difference between NPV and nominal value in settlement packages, together with details of policies being followed on this point in other international financial institutions.