



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Seventieth Session**

Rome, 13-14 September 2000

**REPORT OF THE AUDIT COMMITTEE**

1. The Audit Committee held its Seventieth Meeting on 7 September 2000 and has the following matters to report to the Executive Board.

**Election of the Chairman**

2. The Executive Director for the United Kingdom, Mr Anthony Beattie, was re-elected to serve for a further term as Chairman of the Audit Committee.

**International Accounting Standard No. 39 and Considerations as to Provisioning in IFAD's Financial Statements**

3. IFAD prepares its financial statements in accordance with international accounting standards (IASs). When new accounting standards or interpretations are issued or amended by the responsible body, IFAD is required to change its accounting policies and, if relevant, to adjust its financial statements accordingly.

4. At its meeting in March 2000, the Audit Committee requested IFAD to examine the implications of new IAS 39 which will come into effect on 1 January 2001, and, in that context, to review both the adequacy of the General Reserve and the Fund's policy for establishing provisions for Members' contributions. The new accounting standard involves the recognition and measurement of financial instruments which, in IFAD's case, cover investments, contributions and loans. The External Auditor was consulted and a review made of the experience of selected international financial institutions: World Bank (International Bank for Reconstruction and Development and International Development Association), African Development Bank and Asian Development Bank.

5. The Committee reviewed a draft Executive Board document on the subject together with an explanatory note prepared by the Secretariat. After in-depth discussion, the Committee requested that the draft Executive Board document be revised in a format similar to the explanatory note to show the effect that IAS 39 would have on IFAD's accounts. The revised draft will be reviewed by the Committee at its December 2000 meeting, and a recommendation to the Executive Board will be submitted with the Report of the Audit Committee to the Seventy-First Session of the Board in December 2000.

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

6. Each year, 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 on the audit of the 1999 financial accounts, involving 14 observations and recommendations, as well as management's draft response to the recommendations. A review was also made of follow-up action on the 1998 recommendations.

7. The Committee requested management to expand upon its draft response in order to reflect a corporate position rather than a divisional one. The Secretariat was also requested to provide more detailed information on the action to be taken to address the recommendations within a specified time frame. A revised draft will be circulated to Audit Committee members for their review and a report submitted thereon to the Seventy-First Session of the Executive Board.

**Private Session with the External Auditor and Review of the Proposed Audit Fee**

8. In a private session, the Committee reviewed the 2000 Strategic Planning Memorandum with representatives of the External Auditor, PricewaterhouseCoopers. The Committee expressed satisfaction both with the memorandum and with the proposed audit fee.

9. Accordingly, the Committee recommends that the Executive Board approve the proposed audit fee of ITL 167 million for 2000, broken down and compared to the prior year as follows:

	<b>1999 Actual (Italian Lire)</b>	<b>2000 Proposed * (Italian Lire)</b>
IFAD Regular Programme	148 000 000	150 000 000
Belgian Survival Fund Joint Programme	6 000 000	6 500 000
Supplementary Funds	10 000 000	10 500 000
<b>TOTAL</b>	<b>164 000 000</b>	<b>167 000 000</b>

\* The increase in the fee for IFAD is calculated solely to take into account the previous year's inflation rate in Italy, while that for the Belgian Survival Fund Joint Programme is deemed necessary to cover the expected increase in audit work related to the planned change in IASs.

**Review of the Internal Audit Function**

10. The Chief, Internal Audit, reports directly to the President. However, the Audit Committee is required by its terms of reference to "satisfy itself that the Fund has an effective and efficient internal audit system". Accordingly, the Audit Committee reviews the workplan of the Office of Internal Audit once yearly, and a summary of the latter's recommendations is reviewed at the end of each year.

11. The Committee reviewed a report on Internal Audit's activities in 1999, a schedule of the implementation of its recommendations and workplan for 2000, and expressed satisfaction with the papers presented. It was decided to revert at a later date to the risk analysis methodology employed in the Internal Audit function, and to keep under review the seniority level of staff in the Office of Internal Audit.

**Review of an Alternative Format for Quarterly Reports on the Investment Portfolio Presented to the Executive Board**

12. Members of the Committee were invited to compare the format of reports on the investment portfolio, as currently presented on a quarterly basis to the Executive Board, with an abbreviated version of the same report. Such abbreviated reports might well replace the longer version in the first



three quarters of each financial year. A full-length report would continue to be prepared at the end of each year covering the previous 12 months.

13. The Committee welcomed in principle the proposal for a shorter report that would highlight key data. It was decided that members of the Committee would reflect further on the draft and submit comments thereon directly to the Secretariat. A revised draft of the report, alongside the present format, would be placed before the Seventy-First Session of the Executive Board in December 2000.